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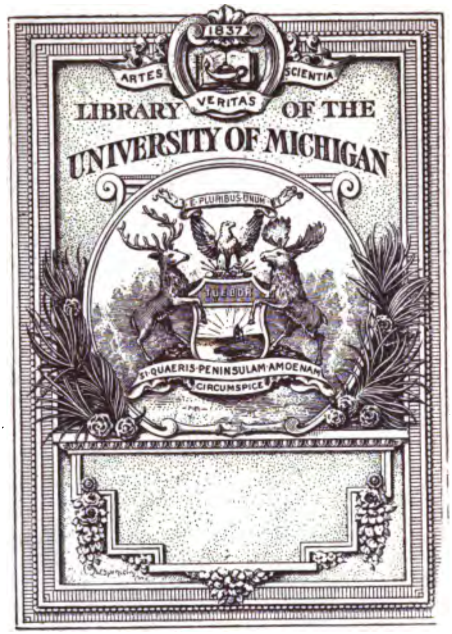
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HOW TO INVEST

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EXPLANATORY OF THE DETAILS OF STOCK EXCHANGE BUSINESS, AND THE MAIN CLASSES OF SECURITIES DEALT IN

TOGETHER WITH

A GLOSSARY OF TERMS IN COMMON USE

BY

C. H. THORPE

London

GRANT RICHARDS

1901

INTRODUCTION

It would be idle to pretend that a handbook for investors can afford all that is necessary in the way of information. The investor must keep his eyes open, consult his broker as before, and make use of the wits with which Nature has furnished him. The only objects of this book are to point out to him certain guiding principles, without attention to which he is running serious risks, and furnish most of the information as to details of business and mere generalities as to stocks and shares which the Man in the Street should know, but very often does not. The wealthy investor may know the facts, but there are many small investors who are strangely ignorant, as anybody who has had practical experi-

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ence of their needs can testify. If this book should help them to understand the main details of financial business, and indicate the principles that guide the movements of prices on the Stock Exchange, its objects will be satisfied.

C. H. T.

May 25, 1901.

GLOSSARY OF TERMS

IN USE ON THE STOCK EXCHANGE AND IN CONNECTION WITH STOCK EXCHANGE INVESTMENTS AND THE WORK OF THE COMPANIES CONCERNED[1]

Ad valorem (stamps, etc.). According to the market value of the security.

Ailsa. Glasgow and South-Western Railway Deferred stock.

Ales. S. Allsopp and Co.'s Ordinary stock.

À L'escompte. A French method whereby a seller for the account delivers on demand *under discount.*

Amalgam (mining). A combination of metals with mercury.

Amortisation. The drawing and repayment of a bond.

Anglos. Anglo-American Telegraph issues, *e.g.* Anglo "B," the Preference, and Anglo "A," Deferred stock.

Apes. New York, Pennsylvania, and Ohio First Mortgage Bonds.

Asked. A quotation is "asked" when a seller will part with stock at the figure named. See *Bid.*

Assessment-work (mining). In United States the annual work necessary on a mining claim until full ownership.

Atlantic. The New York, Pennsylvania, and Ohio R.R. Co.

Ayrshire. (1) Glasgow and South-Western Railway. (2) The Ordinary stock of that railway.

Backs (mining). Ore from the back of a lode.

Bags. Buenos Ayres Great Southern Railway Ordinary stock.

[1] Only such terms are included in the Glossary as are not mentioned in the Index, and to which reference is not made therein to the text.

Balance Certificate. When we sell only a part of our holding, and send our original certificate in to the company for transfer purposes, we receive a *balance certificate* for the holding remaining to us in the company.

Ballymena. Belfast and Northern Counties Railway.

Bandon. Cork, Bandon, and South Coast Railway.

Barrel Amalgamation (mining). Where the silver is amalgamated with quicksilver by revolving the ore in barrels.

Bays. Hudson Bay Company shares.

Becks. Bechuanaland Exploration shares.

Beefs. Eastman Company's Ordinary shares.

Belly (mining). Where the ore body bulges out.

Berthas. London, Brighton, and South Coast Deferred Ordinary stock. Also called Brighton "A."

Berwicks. North-Eastern Railway, or "Berwick," Consolidated Ordinary stock.

Bid. Applied to a quotation (thus, 116 bid) means that a buyer in the market is willing to give the price for stock.

Blasting powder (mining). An explosive powder used for breaking up hard ground in mines.

Blind lode (mining). A lode that does not show on the surface.

Blow-out (mining). An outcrop of the lode, of a misleading kind as regards value beneath.

Blue-ground (mining). In diamond-mining, the ground in which the stones are usually found.

Bolsa (Spanish). Bourse.

Bonanza (mining). A rich deposit of ore.

Bones. Wickens, Pease, and Co.'s shares.

Bonus. An extra dividend, usually distributed under this name when directors do not expect to be able to maintain the increase in the total distributed.

Borsa (Italian). Bourse.

Bosh. Wabash Railroad Preference shares.

Bottles. Barret's Brewing and Bottle Company's shares.

Branch (mining). A small vein off the lode.

Breads. Aerated Bread Company's shares.

Breadcrumbs. Split shares of the Aerated Bread Company.

Brighton "A." See *Berthas.*

British. (1) North British Railway; (2) its Ordinary stock.
Broken Hill Props. Broken Hill Proprietary shares.
Brums. The Ordinary stock of the "Brum," or L. and N.W. Railway.
Buddle (mining). A contrivance for concentrating ore.
Buffels. Buffelsdoorn G.M. Company's shares.
Bulkhead. A dividing partition in a mine.
Bullion. Gold, silver, etc. in lump form.
Bullocks. Buluwayo Exploration Company's shares.
Bunch (mining). A small mass of rich ore.
Butty (mining). A contractor in a coal-mine.

Caley. Caledonian Railway Ordinary stock.
Caliche (mining). In connection with nitrate companies is the valuable matter on the companies' properties.
Calicos. Calico Printers' Association shares.
Call. (1) The right to obtain shares, etc. at a certain price within a given time; (2) the demand by a company for an instalment due on shares or stock.
Canpacs. Canadian Pacific Railroad shares.
Cap (mining). Where the vein or lode becomes worthless.
Captain (mining). The mining term for the working manager.
Cashel. Great Southern and Western (Ireland) Railway.
Cave (mining). Where workings fall in.
Centrals. New York Central Railroad shares.
Champion lode (mining). The chief lode itself.
Chartered. The shares of the British South Africa Company.
Chatham. The London, Chatham, and Dover Railway.
Chats. The Ordinary stock of the Chatham.
Childers. The $2\frac{3}{4}$ per cent Consolidated Stock of the British Government, redeemable 1905.
Chinas. Eastern Extension Telegraph shares.
Chlorides (mining). The ores containing chloride of silver.
Chute (mining). A vein of ore which goes downwards.
Claras. Caledonian Railway Deferred Ordinary No. 1 stock.
Clarettes. Caledonian Railway Deferred Ordinary No. 2 stock.
Clean-up (mining). The collection of all the metal for the different parts of the mill or plates.

Concentration (mining). A process of separating the rich portions of ore from the bulk.
Consideration. The amount named on a transfer deed as that for which the stock or shares is transferred.
Coras. Caledonian Railway Deferred Converted Ordinary stock.
Corpses. Peruvian Corporation issues.
Costeaning. Prospecting for ore by making shallow pits.
Cottons. English Sewing Cotton shares.
Coulisse. The unofficial brokers of the Paris Bourse.
Cradle. A trough in which auriferous earth is washed in order to get at the gold.

Damps. Denver and Rio Grande Preferred shares.
Denver. Denver and Rio Grande Railroad.
Devils or Devels. Transvaal Estates and Development shares.
Dinahs. Edinburgh and Glasgow Railway Ordinary stock.
Districts. Metropolitan District Railway Ordinary stock.
Distringas. An old form of writ whereby transfer of stock or shares could be stopped by any person interested. The same results are now attained by giving the company notice under Order XLVI., Rules 3-11, of the Supreme Court.
Doras. South-Eastern Railway Deferred Ordinary stock; also called *Dover "A."*
Dover "A." See *Doras.*
Down. Belfast and County Down Railway.
Dressing (mining). The preparation of ore for treatment.
Drift (mining). A horizontal underground working.
Dump (mining). Heap of ore or worthless matter from the washings deposited on the surface.
Dundalk. Dundalk Steamship Company.
Dyers. Bradford Dyers Association shares.

Easterns. Great Eastern Railway Ordinary stock.
Elbow (mining). Where the lode matter turns sharply.
Elswicks. Sir W. G. Armstrong, Whitworth Company's shares.
Enfaced paper. India rupee paper when it is written across

the certificate that the interest can be received in London by a bill on Calcutta.

Eries. New York, Lake Erie, and Western Railroad shares.

Exchequer bills. Government bills for short term of years, with option to holder to demand repayment any year. They bear interest.

Face value. The nominal value of a security.

Fault (mining). When the reef is broken and a piece of barren ground is encountered.

Feeder (mining). A small vein off the main reef.

Fiddle. Middle price of a security.

Fissure Vein (mining). A crack in the earth filled with mineral matter.

Fixed charges. The charges for interest, rent, etc., which have to be paid before a company distributes anything to shareholders.

Floaters. Temporary loans usually in form of bearer securities, and so-called because easily realisable.

Floras. Caledonian Railway Preferred Converted Ordinary stock.

Flume (mining). Wooden pipes for carrying water to a mill.

Flux (mining). Anything used to fuse metals.

Foreclosure. The taking possession of mortgaged property by a mortgagee after default.

"*Foreign settlement.*" The settling in Consols and a few other securities in the earlier part of the month.

Friable (mining). Easily broken.

"*Goldfields.*" Consolidated Goldfields of South Africa Company.

Haddocks. Great North of Scotland.

Hard. Prices are hard, when the tendency is to rise.

Heavy. A market is heavy when the tendency is for prices to fall.

Hulls. Hull and Barnsley Railway stock.

Hungry (mining). When the veins are worthless.

India bills. Drafts on the Presidency towns by the Indian Government, and issued here by tender.
Indigos. Shares of the Yorkshire Indigo, Scarlet, and Colour Dyers.

Jagers. Shares of the New Jagersfontein Mining Company.
Jumping claims (mining). Taking possession of a mine, perhaps illegally, but perhaps through legal conditions not being fulfilled by owners, who have thereby lost ownership.
Junction (mining). Where veins meet in a mine.
Jungle market. The market in West African mining shares.

Kaffir Circus. The market in Kaffirs.
Kaffirs. South African mining shares apart from Rhodesians.
Kangaroos. Western Australian mining shares.
Kansas. Kansas City Southern Railroad.
Khakis. National $2\frac{3}{4}$ per cent War Loan.
Kisses. Hotchkiss Ordnance shares.
Knackers. Harrison Barber and Co.'s shares.
Knights. Witwatersrand mining shares.

Leader. A small vein of ore connected with a main ore body.
Leeds. Lancashire and Yorkshire Railway.
Letter of regret. Notice by a company to applicants for shares signifying that no allotment is made.
Letter of renunciation. When a company is issuing new capital and giving the option of subscribing to the old proprietors, forms are sometimes sent out to be filled up and returned if the allottees are waiving their rights.
Limerick. Waterford and Limerick Railway.
Limit. The extreme price which a client names to his broker as that at which he is or is not to do certain business.
Limited market. A market in which it is somewhat difficult to deal.
Little Chats. London, Chatham, and Dover Ordinary stock.
Little Turks. Turkish "B," "C," "D" series (*q.v.*).
Lombards. South Austrian and Lombard Venetian Railway issues.
Londons. London and North-Western Railway Ordinary.

Macroom. Cork and Macroom Railway.
Mails. Mexican Railway Ordinary stock.
Marbles. Marbella Iron Ore shares.
Margin (Stock Exchange). Cover.
Masons. Mason and Barry shares.
Matrix (mining). The barren rock enclosing the valuable ore.
Matte (mining). Ore after it has been partially "reduced."
Megs. Mexican Railway Trust Preference stock.
Mets. Metropolitan Railway stock.
Middies. Midland Railway stock.
Milks. Chicago, Milwaukee, and St. Paul shares.
Modders. New Modderfontein Gold Mining shares.
Mother-lode (mining). Main lode.
Mullingar. Midland Great Western of Ireland Railway.

Native metal (mining). Pure metal.
Noras. Great Northern Railway Deferred Consolidated Ordinary stock.

Obs. Abbreviation for Obligations (prior charges of foreign railways).
Oficina (mining). Where nitrate of soda is manufactured.
Ohio. New York, Pennsylvania, and Ohio Railroad.
Omnium. A loan of different parts, united in the Omnium.
One of stock. £1000 nominal; two of stock is £2000 nominal; three £3000; half of stock is £500; and so on.

Panning (mining). Washing ore in a pan by hand to obtain the metals.
Parquet. The official portion of the Paris Bourse, where the Agents de Change do business.
Passage. Cork, Blackrock, and Passage Railway.
Pauls. See *Milks.*
Pawned stock. Stock lodged with bankers, etc., as security.
Penns. Pennsylvania Railroad shares.
Peter (mining). When the lode narrows, disappears, or "pinches" out.

Pocket (mining). Rich ore in a small mass.

Ports. Portuguese bonds.

Potts. North Staffordshire Railway.

Premium. Is in excess of the amount subscribed. If stock is £50 paid, 2½ *premium* will make it worth 52½. If stock is issued at 102, then a market quotation of 2½ premium will make it in reality 4½ premium to the purchaser.

Props. Broken Hill Proprietary mining shares.

Reading. Philadelphia and Reading Railroad shares.

Real stock. Stock actually held and not sold speculatively.

Regulus (mining). The pure ore at the bottom of a crucible.

Rentes. The national debt of a country, *e.g.* France, or rather the interest on that debt. Usually that is all the country contracts to pay. Virtually French Rentes are the French Consols.

Reserve liability. A liability on shares that is only called upon in case of trouble.

Road Cars. London Road Car Company's shares.

Rosies. Buenos Ayres and Rosario Ordinary stock.

Sag. A market sags when prices fall gradually from want of buyers.

Salting (mining). When rich ore is placed in a mine to give delusive returns.

Scrip. Properly speaking, a form of receipt for stock given to subscribers, who can exchange it later for certificates or other evidence of ownership.

Set-back. A temporary decline in a rising market.

Shake Out. When weak holders are frightened out of their securities by a fall in prices sometimes brought about for the purpose.

"*Shop.*" The term applied to those who specially look after the market in a security. It includes the financial controlling group and the jobbers employed by them.

Shores. Lake Shore and Michigan Southern.

Shuttings. When the transfer books of a company are closed

for the preparation of dividend warrants. No transfers of stock are made by the company during the period.

Silvers. India-Rubber and Gutta-Percha shares.

Slide (mining). When the strata suddenly dip away downwards.

Slubbers. British Cotton and Wool Dyers' shares.

Slump. A sudden and heavy fall in prices.

Soaps. A. and F. Pears' shares.

Soos. Minneapolis, St. Paul, and Sault de Marie Railroad.

South. London and South-Western Consolidated Ordinary stock.

"*Spot.*" A "spot" quotation is one for immediate delivery.

Spur (mining). A small vein off the ore body.

Squeeze. When "bears" find it difficult to secure stock on repurchasing.

Stale bull. A "bull" who has had operations open a long time without success.

Stock Exchange holidays. The ordinary Stock Exchange holidays are January 1, May 1, November 1, or the first weekdays if these days are Sundays, Good Friday, Christmas Day, and the usual Bank holidays.

Stop orders (American). A "limit" for selling out in case of a fall.

Stouts. Arthur Guinness and Co.'s stock.

Strike (mining). When ore is encountered.

Sump (mining). A hole at bottom of shaft to collect water. When it is drained of water it is said to be "in fork."

Sweets. Sweetmeat Automatic Delivery shares.

Talon. A certificate attached to a coupon sheet which may be exchanged for more coupons.

Tape prices. The prices sent over the Exchange Telegraph Company's machines from the Stock Exchange to subscribers. So called, because they are printed on a long ribbon or "tape" of paper.

Tars. Tharsis Copper Company's shares.

Telephones. National Telephone Company's securities.

Tilbury. London, Tilbury, and Southend Railway.

Tintos. Rio Tinto Copper Company's shares.
Tributor (mining). One who undertakes to work a mine, or a portion of it, and pay a percentage of results for the privilege.
Trunks. Ordinary stock of the Grand Trunk Railway of Canada.

Unions. Union Pacific Railroad shares.

Vestas. Railway Investment Trust Deferred.
Vickers. Vickers, Sons, and Maxim shares.
Virgins. Virginia 2 per cent Funded Debt Bonds.
Vogels. Vogelstruis Estates shares.

Wags. Western Australian Goldfields shares.
Waiter. A Stock Exchange attendant.
Waiver clause. A clause which formerly appeared frequently in prospectuses whereby applicants were held to waive rights to know certain particulars as to contracts.
War loan. See *Khakis.*
Wasting investment. Any investment which must one day necessarily be worth, intrinsically, less than it is now.
Water. That capital which is over and above fair valuation for the business.
Weak bull. A "bull" speculator who has not enough means to pay heavy differences.
Westralians. Western Australian mining shares.
Whiskies. Dublin Distillers' Company's securities.
Wicklow. Dublin, Wicklow, and Wexford Railway.
Wild Cat. An unsound venture, dishonestly marketed.
Woolcombers. Yorkshire Woolcombers Association shares.

Yankees. American Railway securities as a whole.
York. The market term for the Great Northern Railway.
York "A." Great Northern Railway Deferred Consolidated "A" stock.
York deferred. Great Northern Railway Deferred Converted Ordinary stock.

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PART I

CHAPTER I

HOW MARKETS ARE INFLUENCED

When Fortune has been good enough to give us something to invest, there is nothing easier than to make an unconscionable muddle in investing it. Outside the area of what are called "gilt-edged" securities, the very soundest that can be picked up, there are snares enough and to spare. The investor may want 5 per cent for his money, and in securing it for a time may find that he has lost no inconsiderable portion of his capital. Some would-be investors are even more greedy, and it is odd that so many do not appreciate the risks that accompany a high interest yield. "I want something *safe*," wrote a country parson not so long since, "something that will return 8 to 10 per cent." He proceeded to point out the hardships of his position, with a view doubtless to the recipient of the letter striving more earnestly to discover that excellent investment. Another letter in the day's budget of correspondence was from one of those

numerous poor struggling widows who seem in perpetual difficulty with their investments, to judge from the way in which they worry the financial editors of the newspapers. "I don't want to speculate," runs a typical request, "but I want something that is *sure* to rise, and that will return 5 per cent or more." Sometimes the correspondents are more startling. "What are Great Bounders?" writes one enthusiastic speculator. "Are they mining shares; and, if so, what dividends will they pay next year?" Here is a fourth from an army man: "I am going to buy some Leopoldinas. Will you tell me what they are? I hear they are very good." A fifth wrote in the same week, stating that he was a poor working-man, and had saved £20. "Will you tell me a sound investment in which I can double my capital before Christmas?" It was then mid-November, and he probably had his eye on the Christmas festivities. Now these instances of recent questions put to one City editor mean plainly enough that there are elementary facts about the stock markets that want knowing, and that there are not a few people in existence who are running serious risks in not knowing them.

Let us take, then, the main causes of market movements. We note, perhaps, a financial writer, with an eye to the future, predicting a general rise in the best investment securities, or another referring pessimistically to the prospects of coal and iron shares, a third stating dogmatically that the

next railway dividends will be bad, and a fourth expressing his conviction that West African mines are going up in value, for "the best people have them in hand." Quite possibly the writers are well-informed. It may be that they are judging from experience of what the movements may be which they fancy are now setting in, and that experience may be worth attention. Markets move for sound financial and economic reasons as well as at the bidding of the gambler. We will, in the first place, take the greatest of all the reasons for market movements—the laws of trade.

Let us suppose that trade is very slack indeed, that men are out of work, with little money to spend on food and drink or clothes. Mills and factories are standing idle, those things that are produced, whether cloth, or coal out of the mines, or whatever they may be, are sold at low prices. There may be a vast amount of capital in the country, but nobody wishes to start a new mill or factory or open up a new mine, because he does not feel that there is a reasonable chance of making a profit. The manufacturer finds that if he wants interest on his spare capital he must invest it in stocks and shares, or somewhere out of his special trade. The banker will allow him little or nothing for his surplus, for there is not much demand for loans, and there are comparatively few trade bills to discount. So the manufacturer calls on his broker, and manufacturers and traders from all over the country call on their brokers, or write to them.

Everybody in trade who has capital is putting it into more or less sound securities. Some gamble with it, like our friend who, in mid-November, endeavours to double his capital before Christmas. Others put it into something safe. The great rush of investors to pick up securities gradually puts up the price of all that are worth having, and many that are not. Consols rise from 100 to 110, and as the interest paid is the same every year, the actual yield to the investor is less, since he is paying more capital to secure that interest. The demand for securities grows. Men and women grumble because they can obtain so little interest in return for their money.

Then some kind people in the City see their opportunity. Hundreds of schemes are propounded, mining ventures are prepared by the score, new inventions that are to make everybody's fortune suddenly become numerous. The advertising columns of the newspapers are crowded with prospectuses of new companies, each better than the others. The wise investor, who is satisfied with his pittance, goes on as before, putting his money into sound securities. But the great multitude of those who wish to get rich, and to get rich faster than their neighbours, begin to subscribe freely for shares, or gamble in them on the stock markets. One day the crash will come, but we need not trouble with that little matter. The main thing is that a great trade principle of supply and demand is illustrated. The public wanted investments; the company pro-

moters supply them. Surplus capital must be invested somewhere.

Meanwhile, new goldfields, let us say, are being opened up. Most of the mines are not worth having, a few are really hopeful, the minority perhaps offer some kind of a chance. The public have paid big prices for all of them, and extravagant eulogies have appeared in some of the newspapers. Mining engineers and company promoters, who will make a big thing out of these fields if the public only subscribe, are interviewed at column length, and make public speeches in which the prospects are discussed with fervour, especially after dinner. A Government official tells in public what *he* has been told. Even the Sunday magazines have an illustrated article or two on the new goldfields. The money pours in, and miners get to work. The shipping companies do a big trade in carriage of passengers and goods to the new country, the makers of mining machinery find orders in plenty, and their works are employed at full time. Simultaneously, perhaps, a great railway is to be constructed in another country, and orders for rails and trucks and engines reach our manufacturers. The men at the works are employed on full time. The demand for coal and iron is greater, and the miners therefore become busy. They and the workmen in the factories begin to drink more, and the demand for minor luxuries in food increases. The money begins to circulate. The banks and the manufacturers find that more

capital must be released from the securities to be utilised in trade, and it is accordingly released. The wives of the workmen want more finery, even the workmen themselves buy new clothes. There is a revival in the cotton trade, the woollen trade, the ribbon and hat-making and shoe trades, and many others. We begin to hear of "good times," and there are fewer Socialists addressing half-starving discontented groups of working-men. The trade revival is interesting enough, as we can see, but what it means to the investor is that the demand for securities is not so great as it was, that more money is employed in trade, many far-seeing men are investing in the debentures and preference and ordinary stocks of the iron and steel and coal and shipping and other companies, those engaged in trade and commerce, and are selling out their low-yielding investments to do so. "A very dangerous thing," remarks one man to his neighbour, when he tells him that he is buying shares in the South Wales Iron Works, let us say. So it may be, for there has been no dividend on the shares for years, and this movement in trade may not last. But our investor probably thinks it will, and is content to back his opinions and the chances of dividends being resumed, and so buys the shares while they are at rubbish values. All these movements out of the best investment stocks mean that there is a tendency for their market-prices to fall. The big insurance companies and the banks, with large sums locked up in the best securities, are well

advised, and probably see what is likely to happen. They too sell a portion of their best stocks and put the money into more profitable channels. At last the decline in the best securities sets in, for the demand is not so great and the sellers are more numerous. Operators on the Stock Exchange become "bears," selling what they have not got in Consols and other securities, with the hope of buying back at a lower price. Quite likely they are successful.

Meanwhile, trade becomes still more active. Workmen have been earning good wages, and though prices have been rising they can afford to pay more without feeling the pinch, and masters are making big profits. Activity in one trade begets activity in many others. There is an enormous output of cloth and cotton, iron goods and steel goods, and one thing or another. And keeping our eye on the market in securities, we find that the best of them are standing at low prices compared with what they were when trade was slack, and that our investor who bought his South Wales iron shares has actually secured a dividend, and that his shares have risen enormously in value, as well as nearly all the shares and debentures of the companies engaged in iron and coal and shipping and other branches of trade and commerce. Observe, then, that when trade was slack we had the best investment securities at a high figure and "industrial" securities, as the iron and coal and shipping shares mentioned above are

called, standing at a low figure. Now, when trade is good, we have the best investment securities at a relatively low figure, and the "industrials" have risen enormously. And depend upon it, there will be many short-sighted people who will believe that the industrials will remain at a high figure, just as there were many who believed that the rise in the best investment stocks was permanent.

Perhaps at this juncture a great firm of manufacturers discovers that, in its speculative zeal, it has over-produced, that there is some difficulty in disposing of its wares, and that certain heavy liabilities are falling due in the near future. The heads of the firm scent danger, and reduce their prices in their zeal to reduce their stocks. There is another big firm of manufacturers in the same line of business that is notorious for its speculative enterprise, and is known to have manufactured heavily in advance of orders. Its bankers drop it a hint that accommodation may not be provided so freely in the near future, for bankers have a way of taking care of themselves. The firm, in its endeavour to reduce its stocks, undersells the other, and as two big firms are thus "cutting" prices, most of the others are forced to follow suit. The middlemen in the trade, noting the movement, are inclined to wait for still lower prices, and so are by no means free with orders. One of the speculative firms finds that much of its discount paper is falling due, that trade has slackened, the value of its stock of goods has fallen, and when it examines its posi-

tion, much to the surprise of its partners it is discovered that the firm is insolvent. There is a suspension of that firm, its payments to others in the trade are delayed, prices fall lower, the banks are more cautious, and probably another business or two collapse. Men are thrown out of work. There is less demand for goods, prudent manufacturers restrict output severely, lighten their commitments and withdraw capital. One trade reacts upon another, just as it did when business began to improve. There may even be a panic. But at any rate there is a slackening off of trade all round, and less incentive to employ capital in industrial concerns, the dividends of which are beginning to decline. Manufacturers and others who are withdrawing capital, and shareholders who are selling their industrial securities, are looking round for something in which to invest. They find that the best securities are at low prices and they buy them. Here, then, we have another important rule for the movements of securities. Slackening of trade should mean a tendency for the best investment stocks to rise and for the leading industrial securities to fall.

We have been following what is a very normal series of movements in trade, occurring so regularly that the term "trade cycle" has been applied to it. The political economists have observed that it usually takes a period of about ten years for the regular succession of changes in trade to take place. It has been the endeavour in these pages to show

that those who observe the trade conditions closely may find one of the main causes of market movements, and that those who act in accordance with well-recognised principles may invest with advantage to themselves. The close of a period of highly flourishing trade is not one in which to buy "industrials" with a view to holding over a term of years; on the other hand, it is a period in which to buy the best investment stocks. It is the other way round when trade has been slack and is at length showing some signs of mending.

We have now discussed the chief influence upon market prices as a whole during normal times. But there are many other important influences that must not be ignored. A period of political uncertainty is one of the chief. It must be remembered that this is perhaps due not so much to alarm on the part of investors as to the very nature of the Stock Exchanges or Bourses. There is a possibility, let us say, of a quarrel between France and Germany. It is probable that some holders of French or German securities may feel nervous, and may desire to sell. On the other hand, buyers will stand aloof, and that will cause prices of French and German securities to decline. If there is a fear that any other country may be dragged into the quarrel, the sphere of declining prices is widened. But there are more important influences at work. There are always many speculators anxious to benefit by such times as these. Stocks are sold that are not possessed, in the hope

that a little later they may be bought back at a profit. At certain regular periods there is a general settlement of accounts on the Stock Exchanges, but if anybody has sold stock that he does not possess he may be able to pay to defer delivery, or borrow some in order to settle his account, and will do so if he thinks that the markets are likely to fall further, and that he will later secure a profit. On the other hand, there are always a large number of people who have bought stock in the hope of a rise in values, and have done so on borrowed money. We shall see how these transactions are effected in a later chapter. Naturally, in time of political uncertainty, or monetary troubles, when it is feared that there may not be so much money to be lent for the purpose of Stock Exchange speculation, these people are inclined to close their accounts. It so happens that these periods are times when there are many selling in order to buy back at a profit, and so there is much pressure to sell, altogether apart from the nervousness of the genuine investor. Thus to the speculative business of the Stock Exchanges many sharp movements in prices are due. Nor are the movements attributable to Stock Exchange influences to be confined to the causes above mentioned. There are often at work groups of speculators operating in unison, or powerful individuals who have great influence in the markets. It is much the same in the Stock markets as in the produce, metal, or other markets. Groups of wealthy speculators manage to control

the great bulk of the supplies of copper or wheat, and so forces price higher. Similarly, a financial group will often succeed in controlling the movements of stocks and shares. A new security is brought out and is taken over by them. Very little of it goes into the hands of the public at first, and they advance the price as they please, probably spreading false rumours as to its great value in the hope of inducing the public to buy. Many speculators, having some idea of the truth, may be inclined to sell at the high prices ruling, hoping to buy back later at a lower level and so secure a profit. It may be that the sales of speculators amount to 100,000 shares. Possibly there are only 200,000 shares in existence, and of these 180,000 are held or controlled by the group that is controlling the market. Now, in such a case as this, those who have sold are "cornered," as the expression goes. When the time comes for settling the bargains on the Stock Exchange, the controlling group may demand the delivery of the shares that have been sold and paid for. It is obvious that only 20,000 shares can be raised outside the original group, and the group may even bid for those and secure them. The price can be put up just where the group wishes, the £5 shares, let us say, being advanced to £20, and the group can make its own terms with the speculators who have sold. When the prices of the shares are advanced in this way the operation is said to be a "rig." It is a temporary movement, but it is none the less one

to reckon with. If the company had been old-established, and the speculators, thinking it over-valued, had sold freely, it is possible that the holders of shares might have been alarmed by the rumours afloat of the fall of prices, and had sold their holdings to a large extent. These shares the speculators would have bought back at a profit in order to fulfil their bargains. On the other hand, there might have been a group of speculators formed who thought the shares undervalued at the lower prices, and who were buying them freely, and when the original speculators who had sold were buying back, the two lots of buyers might have forced up the price again very quickly. Then, we have to note that, although temporary in its results, Stock Exchange speculation is an important factor to reckon with in the movements of prices.

There is one serious development of Stock Exchange speculative business that has to be noted. Sometimes a fall in securities, due to whatever cause, may result in difficulties in selling. Buyers stand aloof, and sellers are so anxious that prices fall away rapidly. Speculators for the rise are forced to sell other securities in order to meet their indebtedness on those that have already fallen, and all the while there are speculators for the fall eagerly awaiting a chance to snatch profits by selling this stock or that. There have perhaps been many speculators who have bought for the rise, not intending to pay for stock except with borrowed money. They find that the lenders of

money stand aloof, and are forced to sell. A combination of troubles of these kinds produces a feeling of great anxiety, resulting sometimes in a "panic." Even genuine holders of stock, alarmed by the way prices are falling, throw away their holdings for what they will fetch. Panics may originate from a very small cause, or from a threat of war or some other serious reason, or they may be the result of excessive speculation for the rise, and the sudden realisation that the rise is based on insufficient reasons, and that facilities for borrowing money for speculative purposes are curtailed. Here again, however, although a panic will inevitably cause widespread disaster and check business for a time, it may be classed as one of the temporary results of Stock Exchange speculation.

There is one other point that should be noted among the main causes affecting market movements. The world's capital is continually increasing, and the difficulty is to find a profitable outlet for the surplus. The company promoter does his best to offer more or less worthless securities, but, on the whole, the growth of capital has been greater than the growth of securities, or the growth of capital intended for investment rather than speculation has been greater than the growth in the number of sound securities. Thus it is that we find that we receive less interest for our money on the average than our fathers did. Not so long since 5 per cent was thought a fair regular return on really good securities, and even on Consols con-

siderably over 3 per cent was obtained at the market-price of the day. The tendency for a long time past has been for the interest yield on sound securities to decline, although there have been fluctuations due to the great trade movements which we have noted in the earlier portion of this chapter and other causes. The reduction of our National Debt lessened the area of our very best securities. All such influences have to be reckoned with.

CHAPTER II

WHEN TO BUY AND WHEN TO SELL

WE have now seen that there are certain definite market influences, and although there may be minor causes of market movements, we can usually rely upon a fairly regular repetition of some of the more noteworthy influences. If we are correct in the view that has been taken, it follows that the investor who acts according to expectations based upon the movements mentioned should find the results more profitable than if he were content with buying certain first-class stocks regardless of those conditions. There are times when even Consols may be relatively dear and undesirable.

Never look only at yield and security. Security is an excellent thing of course, and the higher the yield, consistently with security, the greater the incentive as a rule. But there are other things to take into consideration. What is the marketability of a certain stock, for instance? We may secure $\frac{1}{2}$ per cent more perhaps on a certain Corporation stock than on Consols, and for all

practical purposes the security is undoubted. But if trade is active and money is dear, and the demand for some corporation stocks is not very pronounced, it may be that we shall find a difficulty in dealing, that the quotation will be wide, and the big difference between the price at which we can sell and the price at which we can buy will result in an appreciable loss if we are forced to sell. The freedom of the market is certainly a thing to consider. We can always deal in Consols, and even deal at a close price, selling at a figure not far removed from the price at which we can buy at any given moment. If it is a case of locking up money it may be an excellent plan to buy corporation stocks at a time of active trade and comparatively dear money. When trade is slack, and the difficulty is to find good investments to retain a fair yield, corporation stocks will have picked up, the market will be comparatively free, and we can sell to advantage.

It is necessary in any case to consider the prospects even of the best security. The broker is not always the best judge. He may be a very shrewd man, and his advice may be valuable, or he may merely be one whose mind is influenced by the feeling in the market as to immediate prospects. That would not be good enough for the investor. If he is buying stocks to hold over a considerable period he should look well ahead and around. We have already noted the main influence on markets, and we have seen how that

the tendency on the whole has been for the interest yield on the best securities to be reduced, subject to certain fluctuations due to trade movements. When we remember that our National Debt was reduced by over £200,000,000 during the late reign, it will be seen that, even apart from the growth of capital, there must have been considerable difficulty in finding good fields for investment for the enormous amount of capital thereby released. At the present time the Sinking Fund is suspended, the Government has been compelled to raise new loans, and the Post Office and trustee areas of investments have been widened. These facts tend against Consols, but the first-named is temporary, and the last tells in favour of the first-class securities affected. We have to give careful consideration to the probable effects of all such developments as those alluded to.

Then, again, when we look at the Home Railway market, there are important tendencies to note. The best debenture stocks are among the soundest securities that exist. If an ordinary stock has paid 3 per cent per annum for the years preceding, then all the debentures, rent charge, guaranteed and preference stocks, of that railway will be available for trustees, and may therefore be considered of the highest class or "gilt-edged." That being the case, we may expect to see such stocks obeying the laws which we have considered in connection with the trade movements, that in time of good and improving trade there is a tendency for prices of such stocks to fall, and in a time of

slack trade a tendency to advance. We may even find the prior railway securities improving at a time that the ordinary and deferred stocks are falling. This is explained easily enough. When trade slackens we find the traffics fall off, especially for goods and minerals, and at a more rapid rate than the decline in expenditure. The railways suffer bad times and pay lower dividends, and prices droop. It is during such slack times that the need to invest capital is more pronounced, and the prior securities of the railways, undoubtedly sound investments as a rule, are being steadily sought after. The time to buy Home Railway ordinary securities is probably not at such a period as the present, but after a year or two of slack trade. Expenditure is then down to its lowest level. The railways will feel the effects of improving trade almost immediately, coal and goods traffics will improve, and at first the ratio of expenditure to receipts will not be much advanced. When after a period of slack trade there are slight evidences of improvement, the investor cannot, therefore, do far wrong in picking up the best railway ordinary stocks, especially those of the great goods carrying lines. They will probably rise steadily in value, for there will be much speculative investment in the market generally, and they will keep very strong until the growing expenditure caused by the high prices of coal, materials, and extra wages, and perhaps a labour dispute causing a general levelling up in the wages

bill, wipe out the increases in traffics. Towards the end of a period of good trade, therefore, it is well to sell. It is well, too, not to forget that whatever short-sighted folk may say as to excellent traffics and good trade, that trade does not continue very brisk for more than two or three years together as a rule, and that towards the end of that time the railways will be losing thereby rather than gaining. As trade improves too, and the ordinary stocks are advancing, we may reasonably look for the sound prior securities to decline, for more capital is wanted in business. There is less zeal to find the best investment stocks, and consequently the market for that class of securities is less well supported.

American rails are, generally speaking, governed by much the same considerations, but there are so many side-issues that it will be well to defer any lengthy discussion until we come to the special chapter dealing with this class of security. There is, however, a certain section of American rails, the grain-carrying lines, which, like many of the railways in Argentina and elsewhere, have special influences. A succession of good harvests will often blind investors to the value of a security. Instead of considering the worth of a stock in the light of its average earnings, special points for consideration apart, the investor too often looks at the present. Heavy crops mean big traffics for the railways, and when the returns are maintained and dividends are good, the price of the security is naturally high. There may be a 6 per cent dividend let us say, and

the price of the stock may be 120, so that the yield is a full 5 per cent. But it may also happen that for the past year or two the harvests have been unusually bountiful, and that the directors have distributed profits freely in the way of dividend. It may be that two or three years ago, when harvests were not so good, the dividends were only 4 per cent, and the stock stood at 80, and given similar conditions it will go to 80 again. The investor has therefore to weigh up the matter carefully, and in the case of all of these railways it is well to take into consideration what margin of net earnings the directors have had after distributing the dividends. Contrariwise, if one of this class of stocks is depressed through a succession of bad harvests and poor dividends, it may be very advisable to look to the possibility of improvement, and not reject the stock as an investment because its present yield is not quite so good as some other speculative investments.

When dealing with the various groups of industrial and miscellaneous shares it is impossible to lay down any very clear rules for the guidance of investors. Each of the leading classes will be discussed separately in the latter portion of this book. We may here be content with glancing briefly at a few general considerations. We have seen in the preceding chapter how the iron and coal and shipping shares depend very closely upon trade conditions, and how necessary it is to be careful not to be left with them on hand when trade slackens, for there is a very great difference between the

value which will be placed upon them at times of good or bad trade. A share may yield 10 per cent, and yet in view of coming slack trade may be worth nothing like its market-price. Speculation has much to do with all securities that feel the full effect of trade movements. There would be less ground for complaint if share values were based upon an average dividend over the period of a trade cycle, but speculators do not regard such considerations. Another class of securities that feels the effect of trade, although in a less marked degree, is that of the bank shares. Although money is obtained cheaply or for nothing at all in times of slack trade, and what business the banks may do is at a profit, the profits are not so great as during brisk times. In this group, too, there are special considerations which deserve separate treatment; but, as a rule, we may say that bank shares should be bought when trade is beginning to show signs of improvement, and sold when there are evidences of a slackening. Trade considerations must also have some weight with investors who purchase shares in gas undertakings, for the cost of coal is an important factor, and in time of great trade activity the increased cost of coal will make a serious inroad into earnings. But to a very large extent we have to consider the worth of the best gas and water shares much as we should consider those of the gilt-edged securities, and apply to them the same general rules as regards sale or purchase.

A very good general rule is to wait patiently,

in time of very active and strong markets, for an opportunity of profitable investment when a break comes. Fortunately the field of investment is wide, and if one group of securities does not fall back to a profitable level in time of Stock Exchange gloom, another may. The causes for these breaks in prices are many. Sometimes it is owing to political fears that a break occurs. For instance, during the dark days of the siege of the Legations in Peking, Chinese securities were at a very low level. Now the chances of the Chinese beating the combined Powers in the long run were very remote; it was not very likely that the Powers would quarrel so seriously among themselves as to endanger the Imperial Customs agreement; and the Chinese loans were secured by that international arrangement, and would have been provided for even in the case of the partitioning of the country. Accordingly, wise people of a speculative turn of mind bought Chinese bonds, and made big profits thereby. So it is with nine political crises out of ten. Unfortunately the tenth may go wrong, and there is the difficulty. Sometimes it is a monetary crisis which upsets markets. Sometimes, again, it is the collapse of a market in which there has been great over-speculation and grossly inflated prices. The trouble that results in the Stock Exchange spreads to other sections, causing widespread anxiety and gloom. Even the best stocks have to be sold to provide money to meet demands. Then is the very best time of all for the investor

with ready capital. On a Stock Exchange panic of this nature it is a case of long odds on the man who goes boldly into the market and picks up the sound securities at the rubbish values. He has not long to wait for a reward. Contrariwise, none but the gambler or the half-witted investor sinks his money in stocks and shares in a market which has been treated to a considerable rise as a result of heavy speculation. The wise man puts his money elsewhere, or keeps it for a collapse in the inflated market. There should be no difficulty in seeing why it is advisable to buy on market troubles of the kind we have noted. Dealers have various commitments on their books, some for the rise and some for the fall. When danger threatens there is anxiety to reduce commitments which are open for the rise. As every purely speculative bargain open for the fall will one day have to be closed—that is, the stock or shares thus sold will have to be bought back—there is a latent source of strength. But at the moment the closing of the accounts open for the rise, further speculative sales for the expected fall, and genuine selling on the part of those who are frightened, or have to sell in order to meet commitments elsewhere, will depress the market far more than is warranted. After a period of fright a market may take some time to recover its former activity, for dealers will be cautious, and if there is a lot of bankrupt stock or shares to be sold a still longer time may be required; but, in the long run, a purchaser who

bought sound securities at such a time, and put them away, will undoubtedly have his reward.

It is perhaps necessary to add that the wise investor will always be extremely careful to make inquiries as to the repute in which a certain stock may be held in the markets. Thus, realising the reputation of the country, he would not invest in Guatemala bonds. So, too, however great the name of a certain firm may be, he would not buy its shares without satisfying himself that the company should be in a position to continue dividends at a rate which will return him a fair yield on his money. He would avoid all stocks and shares, however much they may be "written up" by certain newspapers, if he is informed on good authority that they are the object of a rig or over-speculation on the Stock Exchange. Sometimes a favourite gambling counter may be forced up to a level which is absolutely unjustified on merits. If an investor be a holder, he should undoubtedly sell. The investor must use no inconsiderable amount of common sense, he must be able to work out the problems for himself, and only when he has a *primâ facie* case for or against a stock need he trouble to hunt for information on the point. As a rule, gratuitous advice is not worth having, and journals which devote much space to the writing up of various more or less gambling securities are often not to be trusted. Half the "tips" to buy originate from quarters in the City which are interested in selling to the public.

CHAPTER III

HOW TO INVEST ON THE STOCK EXCHANGE

When a man wishes to buy a coat or a pair of boots, he goes to certain places where coats or boots are sold. It is far simpler than making coats or boots for one's self, or inquiring from door to door until a seller is found. Considerations of public convenience and the prospect of gain have induced certain persons to establish marts for the sale of coats and boots. In much the same way the public demand for stocks and shares led to the establishment of places where they could be bought or sold, and these places we call Stock Exchanges or Bourses. The most important Stock Exchange in this country is that of London, but there are numerous provincial exchanges, and of these the chief are Glasgow, Edinburgh, Dublin, Birmingham, Manchester, Leeds, and Liverpool. Securities of local importance, often not dealt in on the London Stock Exchange, may generally be bought or sold in one or other of the provincial exchanges, even through a London broker.

Each of these exchanges and numerous others are governed by their respective committees, laws are framed regulating the business of the Exchange and transactions with the public, and definite steps are taken to ensure honourable dealing and financial soundness. Abroad, we also find very important Stock Exchanges, to which the term Bourse is generally applied. The most influential of these are the institutions in Paris, Berlin, Amsterdam, Vienna, and New York, to the last named of which, from its situation, we refer colloquially as Wall Street, just as our own London Stock Exchange is, for the same reason, sometimes called Capel Court. It is well to remark in passing that other financial transactions than what we consider Stock Exchange business are sometimes effected on the foreign Bourses.

A word as to the London Stock Exchange. It is a body of traders in stocks and shares divided, in popular language, into two sections, brokers and "jobbers" or dealers. The Stock Exchange is governed by a committee, styled the Committee for General Purposes, and this committee of thirty members is elected annually from among members who have been on the Stock Exchange for at least five years. It makes rules and regulations for the transaction of business, elects new members, watches over the conduct of members in their dealings with the public and with one another, and has powers of suspension or expulsion where infringement of rules or dishonour-

able or disgraceful conduct has taken place. The committee may, and does, expel those members who are unable to meet their liabilities, and when expulsion of a member has been decreed it is the practice of the committee to publish the names, sending notices to the press with a view to publicity. Moreover, the committee is careful in the selection of new members to demand certain sureties for their financial soundness, forbids participation in any other business, and in regard to their dealings with the public, is willing to consider any complaint that may be laid before it, merely asking the non-members to give an undertaking to submit to its decision.

How carefully the Stock Exchange Committee endeavours to prevent business that may be dangerous can be seen from the fact that members are forbidden to deal in speculative business with officials or clerks in public or private establishments, without the knowledge of their employers. Thus, if a clerk in the London and Westminster Bank wished to gamble in mining shares, and the committee discovered that a member of the Stock Exchange had transacted the business for him, knowing him to be a clerk, and without the consent of his employers, that member would undoubtedly be suspended or even expelled. In other ways, too, the committee strives to preserve financial morality, demanding that companies which wish for a quotation in the official price list should satisfy certain special requirements,

brought now into some conformity with the Companies Acts; and in regard to the new loans of Foreign Governments which are in default on previous issues, such new loans are excluded from the official list.

The province of the Stock Exchange Committee has been stated at some length in order that the reader may see that in dealing with a member of a recognised Stock Exchange, he has a reasonable sense of security, and has a strong and energetic body of representative members to whom he can appeal if necessary. In this way he can feel much more confident of fair dealing and financial security than when doing business with "outside brokers," members of no reputable exchange. Such people may be honest, and they may be financially sound, but there is little proof that such can be relied upon. Moreover, they have not the facilities for dealing easily and economically, and they must often necessarily resort to the Stock Exchange, which results in two commissions being paid in place of one. No member of the Stock Exchange is allowed to advertise or tout for business. When, therefore, we receive a circular from Messrs. Sharp and Keen, whom we do not know, but who recommend us certain investments and offer to do business for us, we may know that they are "outside brokers," and very probably best [illegible] But there is an even more danger[illegible] [illegible]outs. These pests send circulars th[illegible] [illegible], full

of fraudulent and lying statements as to the profits which have resulted from previous deals with them, or asking, perhaps, for subscriptions to a "pool" which will enable them to operate in a certain stock, usually unnamed, which is sure to result in a huge profit. Often the rogues will announce themselves as an old-established firm. Those who know their habits are aware that they may be Sharp, Keen and Co. this week, with an office in a back attic in a side street, and next week they may be Owen, More and Co., with an office in the West End. Sooner or later, many of them fall into the hands of the police, but too often the wretched investor who trusts them with hard-earned savings hears no more of them. These "bucket-shop" keepers, as they are called, are among the disgraces of the town. Thanks to the vigorous denunciation of certain journals, the City police have moved in the matter of late, but they continue to flourish in the metropolitan area. If the public wish to avoid being swindled, they will have nothing to do with any unknown touts who offer, through the post, to do business with them in stocks and shares.

When we wish to buy stocks or shares on the London Stock Exchange, we go to a member of the "House," as it is called. That individual, however, does not keep stocks and shares in his office. He will step across to the "House" and do business there. He will go to that particular section where the class of securities for which he

is looking are sold. These sections are called markets. In one we find dealers selling South African mining shares; in another the securities of the foreign governments are sold; in a third section there are the dealers in American railway issues, and so on. To one of these dealers, or jobbers, the broker goes and inquires the price of the stock. He does not say whether he is a buyer or a seller. The jobber may profess willingness either to buy and not sell, or *vice versa*, but the broker need not say which he intends to do. He simply asks for the price. In reply, the jobber will name two prices. Thus, replying to a question, "What price do you make me in 100 Royal mines?" the dealer may say $10\frac{1}{4}$-$\frac{1}{2}$. That is the form in which the reader will find the shares quoted in his newspaper next morning, and the meaning is that the dealer quotes $10\frac{1}{4}$ to $10\frac{1}{2}$ as the market-price of the shares. The dealer is prepared to do business as a buyer or a seller. If he is selling to the broker he demands the higher price, or $10\frac{1}{2}$; if he is buying from the broker he will give the lower price, or $10\frac{1}{4}$.

There are some securities which are freely dealt in, and there are others in which the market is very limited. It is the same in trade. For every buyer of a diamond ring there are many buyers of loaves of bread. Consequently the profit on an ordinary diamond ring is very much greater than the profit on the same money's worth of bread. That is the result of the market in diamond

rings being more limited. It is just the same with stocks and shares. There are 200,000 £5 shares, let us say in Royal Mines, and there are only 10,000 £5 shares in the Prince's Hotel Company. Consequently it should be easier to deal in Royals than to deal in Princes. So that we should find that when the broker asks the dealer a price in Royals, and the dealer, as usual, quotes him two prices, the difference between them should be less than the difference between the two prices of Princes. The reason is that the difference, or "turn," between the two prices quoted in each case is the jobber's profit, and he will be content to take less where he can do business easily and quickly. When he quotes $10\frac{1}{4}$-$\frac{1}{2}$ for Royals, his "turn" is $\frac{1}{4}$, and that we have seen is his profit. On 100 shares he should, therefore, gain £25, a very substantial profit indeed for a few minutes' work. But everything depends upon whether he can get it. The market does not stand still. Prices are always moving, and the jobber, like any other trader, does not buy to keep his shares and admire them. The price may go down, and by the time he finds a customer to take the shares which he has bought at $10\frac{1}{4}$, there may have been other brokers selling in the market or no very willing dealers, and other jobbers may have put the price down to $9\frac{3}{4}$-10. In that case he may only be able to sell at 10, and he loses £25. Moreover, if the market is free, and the broker be a good customer and a sharp business-

man, the jobber may quote a "narrower price" if the broker thinks the difference between $10\frac{1}{4}$ and $10\frac{1}{2}$ a "wide quotation." He may have quoted $10\frac{5}{16}$ to $10\frac{7}{16}$, and the "turn" be thus reduced to $\frac{1}{8}$. The width of the quotation, or the difference between the two, usually depends very much upon whether the market is free or limited, and if very limited, a deal is a matter of negotiation. Sometimes, when looking at the Stock market articles in our newspapers, we may see only one price quoted. That would be the "middle price," the exact half-way quotation between the two that the jobber would mention. Thus, in the case of our Royals, the "middle price" would be $10\frac{3}{8}$. If that be the case, we may feel reasonably sure that if we want to buy we must pay *more* than $10\frac{3}{8}$, and if we want to sell we must receive less. Since the "jobber" keeps a kind of shop for the sale of certain securities, and so meets a public want, he must be allowed a "turn" or profit if he is to be allowed to live.

When business is done between a broker and a dealer, we refer to the transaction as a "bargain." When the dealer buys Royals from the broker, there has been a "deal" or "bargain," and since the dealer will want to sell them again, he is said to want to "undo his bargain." We have seen now the meaning of the double quotation of a stock, and traced through the details of a bargain. Sometimes, however, when we open our newspapers, we find stocks and shares with mysterious

little markings by the side of the figures. Thus to-day Royals may be quoted $10\frac{1}{4}$-$\frac{1}{2}$, and to-morrow $10\frac{1}{4}$-$\frac{1}{2}$ xd, or $10\frac{1}{4}$-$\frac{1}{2}$ xr, or $10\frac{1}{4}$-$\frac{1}{2}$ xn, or $10\frac{1}{4}$-$\frac{1}{2}$ x-all. These markings are not put in by the compositor for mere amusement. When we buy stocks or shares, we probably hope to receive dividends or interest upon them. We may possibly buy them together with the right to this dividend or interest next month. In which case we buy them "cum-div." or with the dividend. But there comes a time when the dividend is due and the holder pockets it when selling stock. When that time has been duly noted officially, all bargains will be made xd, or without the dividend, and the stocks or shares will be so quoted in our newspapers. It may be that for a time the holder of a security has the right to apply for certain new shares or other privileges. While that is so the stock or share will be sold "cum-rights," and when the right is lost, they will be quoted ex-rights, or "xr." Or there may be a right to both dividends and privileges and the stock or share be sold "cum," or together with all these rights. When the time for paying for a stock or share at the settlement nearest the period for securing these rights has come, we may expect to see the shares quoted "ex-all"—that is, if we buy we no longer have the right to that dividend or those rights. There may also arise a question as to accrued interest, the amount of interest that has become due since the last payment. This

chiefly affects certain foreign securities, the quotation for which may not include accrued interest, which is paid for separately. Thus such a stock with 3 per cent interest which was due half-yearly on 1st January and 1st June would carry three months' interest or 15s. per cent on 1st April. That is, 15s. per cent of interest has accrued, and where it is not included in the price, will have to be paid for. The Stock Exchange term for the 15s. per cent is *accrued interest.* If the security is sold and the accrued interest is not included in the price, we say in market parlance that we sell the security *clean.*[1] Usually, however, the accrued interest is included in the price, and if we buy only a day before the half-yearly dividend is taken off the stock, we shall receive that half-year's accrued interest.

Most of the leading Stock Exchanges publish official lists of prices, but not all securities in which there are dealings are quoted in the official list. If we examine these lists we shall see mysterious little markings in the margin on the right-hand side of the official quotation of any stock or share mentioned therein. These are called the "official marks," and represent the prices at which business has actually been done in the "House" during the day, dealers marking up the quotations on certain boards kept in the "House" for the purpose. These official markings are very useful so far as the out-

[1] A market is called *flat* if prices are severely depressed. The expression was sometimes applied to stocks as equivalent to *clean.*

of-the-way securities are concerned, for the official quotation is often a very wide one, and does not give an idea within a pound or two at what price a stock may be bought or sold.

Our broker may buy stock for cash or for the settlement. That is, we may pay for it at the time, or we may pay on the usual settling days for bargains between members, which are fixed by the committees of the exchanges. Such Settlements take place twice a month for most securities, but only once a month in the case of Consols and a few other leading securities.[1] In practice, brokers nearly always buy for the settlement, or the account as it is called, and only in the case of Consols and a few securities of that class is it at all customary to buy or sell for ready money. Each settlement is three days or more in duration, but we shall see more clearly what is implied by a Settlement when we come to consider speculation as opposed to investment business. Suffice it here to say that, on the last day of each settlement, stocks or shares are actually paid for. But although we may thus have a fortnight or so of grace in the matter of payments, our broker does not fail to advise us previously as to the bargains done. As a rule we receive from him an "advice note" of the bargain done, and a "contract note" is also forwarded in which are set out the amount of the security bought or sold, the price at which the bargain has been effected, the commission charged, the amount of stamp

[1] Provincial S.E. Settlements are usually a day before London.

duties, and the fees, if any, charged by the company for making the transfer. Here, for instance, would be a fair form of a contract note :—

CAPEL HOUSE, E.C.
21st December.

We beg to advise you that we have *bought* on your account, subject to the rules of the Stock Exchange, as under, for settlement 31*st December*.

20 shares Salted Gold Reefs, 3½	£70	0	0
PENNY STAMP	Government stamp 7s. 6d., duties 1d.	0	7	7
	Fees charged by company . .	0	2	6
	Commission, 9d. per share . .	0	15	0
		£71	5	1

A word as to each of these charges. The amount charged for the shares explains itself. The Government stamp duties are of two kinds. A charge is made for any contract over £5 in value, a penny stamp (as above) being paid if the bargain is below £100 in value, and one shilling stamp if in excess of that value. In addition, the Government demands transfer duty. If there has been valuable consideration, a transaction for money, the charge in stamps will be 6d. for each £5 or part of £5 up to £25, and 2s. 6d. for over £25 up to £300.[1] Thus for £98 : 10s. the transfer stamps will be 10s. When stocks or shares are transferred for a nominal consideration, by way of gift or otherwise, the stamp fee exacted is 10s. for each deed. The next

[1] For each £50 over £300 5s. extra. Certain *bearer* and other securities are charged 3d. in adhesive stamps under £25, and 6d. for each £50. Sometimes a company pays the stamp duties.

item in the contract note is the fee charged by the company. This is a registration fee, charged for making the necessary transfer in the company's books, is exacted from the purchaser, and is usually half a crown. Naturally, if there is no registration —that is, if the security is to "bearer," and can be handed on much as we should hand on a bank-note, —there is no fee. The final charge is for the broker's commission. Oddly enough, there is no official scale of commission charges on the London Stock Exchange, although some of the provincial exchanges publish them and their members are not allowed to depart from them. But in dealing with a London broker, the wealthy client, who may be a frequent customer, often has his business done at very much lower rates than the usual charges. These charges may be set out as follows, and should not be exceeded by any respectable broker:—

British and Indian Government Securities	2s. 6d.	p. ct. on	nominal value.[1]
Corporation and Colonial Stocks	5s.	,,	,, ,,
Foreign Government Stocks	5s.	,,	,, ,,
Home Railway Stocks	10s.	,,	actual value.
American and Foreign Railways	5s. to 10s.	,,	nominal value.
Shares of £1 nominal value and under			3d. per share.
,, between £1 and £2 nominal value			6d. ,,
,, ,, £2 and £5 ,, ,,			9d. ,,
,, ,, £5 and £10 ,, ,,			1s. ,,
and 6d. per share for each portion of £5 in excess.			

Many brokers do not charge less than a minimum commission of 5s. When a broker has to go to another Stock Exchange to buy or sell shares, he divides his commission with

[1] If we buy Consols at 96, that means that we pay £96 for each £100 of stock. The £100 is the *nominal*, and £96 is the *actual* value.

the broker to whom he resorts there. As a rule, when a security is sold out and the money immediately re-invested in another, the broker only charges one commission.

Having bought a stock or share, the purchaser will next receive a "transfer form" soon after the next settlement, except in the case of bearer securities and inscribed stocks (*q.v.*) This will set out the name and description of the buyer and seller, the amount of the consideration for the sale of the registered stock, and will be stamped as mentioned above. The document has to be signed by both parties to the transfer, each in the presence of a witness.[1] When this has been returned to the purchasing broker, who received it from the seller

[1] The following is a form of transfer:—

I, (1) in consideration of the sum of (2) paid by (3) hereinafter called the said transferee.

Do hereby bargain, sell, assign, and transfer to the said transferee:— (4) of and in the undertaking called the (5)
To hold, unto the said transferee, his executors, administrators, and assigns, subject to the several conditions on which I hold the same immediately before the execution hereof; and I, the said transferee, do hereby agree to accept and take the said , subject to the conditions aforesaid.

As witness our hands and seals, etc.

Signed, sealed, and delivered by the above-named in the presence of (6)
Witness's signature.
Address. (7) SEAL.
Occupation.

Signed, sealed, and delivered by the above-named in the presence of (8)
Witness's signature. (9)
Address. SEAL.
Occupation.

or his representatives, it will be duly forwarded to the offices of the company. The directors should consider the transfer at the next meeting of the board, and if they accept it, the necessary alteration will be made in the books of the company, the new stockholder being registered in place of the old, and a certificate will be issued to the holder showing the amount to which he is interested in the company. As to when the directors may refuse to accept the purchaser we will discuss later. If there is difficulty in obtaining shares we have bought, the remedy is "buying in," to be discussed later. One case of purchasing shares cum. dividend has to be noted. If the company's books are closed for dividend, the amount of dividend will be deducted from the sum chargeable for stock, and the seller will retain the dividend after making the allowance.

The certificate should be issued as soon as possible after the transfer is accepted, but unfortunately many companies are very dilatory in this respect. The certificate, as such, has, however, little value, although it must be given up to the company through the broker when stock or shares are sold.

(1) Here are the seller's or transferror's name and address.
(2) Here is amount paid for stocks or shares.
(3) Here is name and address of buyer or transferee.
(4) Here is description of stock or shares sold, with the numbers of the shares.
(5) Here is the name of the company.
(6) Here the seller signs his name.
(7) Here the witness of the seller's signature signs.
(8) Here the buyer signs his name.
(9) Here the witness of the buyer's signature signs.

If a holder should wish to sell before he has received his certificate, he need not, of course, be deterred by the fact that he has no certificate to deliver. And if a holder should lose his certificate, it is not difficult to obtain a new one, although certain formalities may be demanded. Thus, the loss of the certificate may have to be advertised, or a declaration made before a commissioner of oaths, and in any case a "letter of indemnity" must be signed, exonerating the company from blame in the matter. The lost certificate is of absolutely no use to any finder. In saying this, of course, we are not referring to bearer warrants.

Sometimes a security may pass, as we have already seen, from hand to hand as readily as a five-pound note. It will be handed over to a purchaser at the settlement without any transfer form. The holder is to all intents and purposes the owner, just as is the holder of a bank-note, although both may be distinguishable by a number. If he is a thief, and is caught, he can, of course, be punished and the papers recovered, but if he should have transferred it for valuable consideration, the purchaser in good faith may hold it. These bearer certificates should thus be very carefully preserved. Bearer securities usually have coupons attached, which must be cut off in order and presented when demanding due dividends. Sometimes, too, the names of the new purchasers are merely inscribed on the books of a certain bank or other agent, and no form of certificate or bearer warrant is issued.

This is frequently the case with Home and Colonial Government and Corporation issues and certain other stocks. If we buy one of these stocks, our names, addresses, and description, and the amount so bought is furnished by our broker to the dealers, who makes the necessary transfer in the books at the bank or the agents, and gives us a receipt form through our broker. This receipt is merely an acknowledgment, and has no other value. It is not like a share certificate. Our names will stand in the books of the bank. If we wish to sell, we must attend personally with our broker, or through power of attorney our broker may attend, a certain form is filled up, and transfer is made in the books of the bank. Sometimes we hear that a certain security is not "good delivery." In purchasing, the broker may be expected to look to this, but in selling much will have depended on the holder. If he have damaged bearer bonds, for instance, it may happen that the buyer will refuse to accept, the bonds being "bad delivery." Sometimes, too, the Stock Exchange official dealings may be in the ordinary shares of a company, and the vendor's shares (those ordinary shares, perhaps, issued to the vendor) may be offered, and refused as "bad delivery." In buying, the broker would doubtless refuse them, but if the dealings have been with an "outside broker," very often vendors' scrip may be palmed off on an unsuspecting victim, when it may be impossible to negotiate them on the Stock Exchange without great difficulty, if at all.

Holders of bonds with coupons attached must be very careful not to detach the coupons before they are wanted, or if this is done by accident, to attach them again securely. Otherwise it may be difficult to sell a bearer bond so mutilated.

We may now note the various descriptions of securities, or the evidences thereof, in common use. We may buy a "bond," "stock," or a share, and each has a definite meaning. By a bond we usually understand a piece of paper admitting a definite fixed indebtedness, say for £20 or £50, which must be sold entire. They are promises to pay a certain definite interest, and possibly also to pay back the principal at a certain time. Very often coupons for the interest are attached, and as each payment falls due the particular coupon concerned has to be cut off and presented for payment. Sometimes these "bonds" are issued to bearer, as before described, in other cases they are registered in the names of holders, and a transfer form is necessary in order to pass on the security to another person. When a bond is redeemable, it may be that it is by annual drawings, and in this case the amount available for each redemption is distributable by lottery. The bonds drawn in this lottery are paid off on presentation. Purchasers of bonds liable to redemption should take the fact into consideration, when purchasing at a price above the "par" or nominal value. Thus if a bond nominally for £100 stands at £104, and is liable to be drawn next year, there might be a serious loss to the holder. On the

other hand, a bond standing "at a discount," *i.e.* below "par" or the nominal value, as if the £100 bond is quoted at £90, might be very profitable for a lucky holder. But usually where bonds are below "par" they are redeemed by purchaser in the open market.

By "stock" we usually understand the whole capital of a company, or the whole indebtedness on a certain loan of a government. We may buy any portion of it, as a rule, when it is so termed. It is quoted at so much per cent. Thus £100 of the company's capital so dealt in may be quoted 105 in the market. If we wish to, we may buy £1 worth or £75 worth, or £85 worth, and theoretically we may buy any amount of it, even five shillings worth. If it were quoted at 105—that is, at £105 for each nominal £100 of indebtedness—we should give £21 for £20 of nominal stock, a guinea for £1 worth, and so on. On the other hand, the capital of a company may be split into certain definite portions, called shares. They are of fixed amount, and are bought entire. Their "par" or nominal value may be half a crown, or £1, or £10, or any other sum. Usually we must purchase at least five if of small value, or the company may decline to register the new holder in their books. Occasionally when the right to apply for new shares is given to an existing shareholding body *pro ratâ*, or in proportion to this holding, it happens that the right is to apply for a certain number of shares and a fraction, as say 2⅓. These fractions may be

got rid of separately, or the remaining fraction bought to make up a whole share.

When we talk of split stocks, however, we mean that they have been divided, one-half being made preferential in interest to the other. This is very common in railway ordinary stocks. Thus the South-Eastern Company has preference stock and ordinary stock. This latter is divided or "split," one-half being called the preferred ordinary, or colloquially on the Stock Exchange the "B" stock, and the deferred portion, which receives none of the interest on the old portion of the ordinary until the claims of the "B" are satisfied, is called the "A" stock. When we speak of Dover "A," therefore, we mean South-Eastern Deferred Ordinary stock. This description as "A" and "B" commonly applies to all deferred and preferred portions of split ordinary stock, whatever the company.

Sometimes there is a prior charge on the revenues of a company, often in the form of a mortgage, and the acknowledgment of which is termed a debenture. The debenture-holders have the right to be satisfied before other share or stockholders in respect to their interest, and often, but not necessarily, in respect to capital also. The acknowledgments of indebtedness may take the form of a bond, or the debentures may be in the shape of stock. It is absolutely necessary to note that, for full security, it must be specifically a mortgage charge, with no rights reserved to place another in front of it. So, too, the preference shares or stocks of a company, that

portion of the capital which has a prior right to interest over ordinary capital, may be preferential as regards capital if the company be wound up and its assets realised. Intending shareholders should carefully consider these points. Sometimes, too, preference shares are cumulative—that is, if the dividends be not paid one year, they must be made up later before the ordinary can receive anything. It is otherwise if they are non-cumulative. A debenture-holder, where the debenture is a specific mortgage, may petition for foreclosure if his interest be not paid at the proper time.

We have now seen the main features in transacting investment business. Before considering the speculative side of Stock Exchange transactions it may be well to note that bankers do no inconsiderable amount of business in connection with stocks and shares for their clients. This may possibly have its advantages for nervous investors, for they have the bank's careful choice of brokers to aid them; but, on the other hand, it is more expensive as a rule, for the banker has his share of the commission, and the broker therefore may charge rather higher rates.

When an estate has to be valued for probate, the portion which consists of stocks and shares naturally passes to the stockbroker. As a rule it is well to have a clear understanding as to the charges that will be made, for if the stocks or shares have a free market, there is very little trouble involved. The "customary" charge for an ordinary

small estate may be put down at two or three guineas, with a minimum of two guineas, and the broker gives a formal certification of his estimates. These are based as a rule on the actual "official marks" in the Stock Exchange list of prices, and Somerset House seems to insist upon this method. It is, however, somewhat unfair, for the official marks are for both sales and purchases, without distinction, whereas the true probate value should be the price at which a stock or share could be sold on the market at the given time. Another method in practice seems to be to take a little under the middle price, where the market is not free. This is also decidedly unfair and for the same reason.

CHAPTER IV

SPECULATION ON THE STOCK EXCHANGE

If the investment work were all the business of the Stock Exchange there would be few brokers and dealers in the "House." A large proportion of Stock Exchange business is speculative business. People nominally buy and sell stocks and shares as speculations in the hope that they may secure a profit by the subsequent sale or purchase, as the case may be. When speculation is active there is a transformation scene in Capel Court. Where perhaps a little knot of dealers stood in comparative idleness, or were reduced to whiling away the time in practical joking, there is a surging crowd of excited dealers and onlookers, a deafening din of voices bidding for and offering stock, or shouting inquiries as to the position of particular securities. Men make fortunes rapidly in these times, and lose them as rapidly a little later, and many of the public attempt to follow their example in the former respect.

In such times anything is good enough for

speculative purposes. You may offer a man a horse for £100 in ordinary circumstances, and he may refuse it. If you caught that man in the mood of a speculator in a time of a "boom," you might ask him £200 for the same horse, and he would give it willingly and turn round confidently to sell it at a profit to his neighbour. In times of a "boom," otherwise sane men will buy stocks and shares merely because they are told by a friend that they are a good thing for an advance in value. They do not trouble to inquire as to intrinsic worth. A paragraph in a newspaper "puffing" an obscure stock or share is even more effective, although the reader may possibly guess that it has been paid for in one form or another. But he buys in the hope that other fools may be induced to buy, and hopes that he will sell to even greater fools by and by, when the price is higher. There may be a perfect frenzy of excitement, dealers stay transacting business for hours after the close of the Stock Exchange. The pressure of business keeps stockbrokers' clerks working far into the night. Prices go up by leaps and bounds, and after every rise new facts are forthcoming to justify another. Wonderful amalgamation schemes are mentioned, leading people interested in selling shares to the public are interviewed, all kinds of surprising stories of coming good luck are told. Everybody is cheerful and contented in the City, and willing to believe that nothing can check the rise. The public buy shares freely. The surly, ill-conditioned person who has seen the game played

before and considers that there is no ground for the rise is laughed down and hides his diminished head. Who wishes to listen to a prophet of evil when everybody is making money? So the silly man goes about grumbling to himself and arguing that somebody will have to pay for it in the long run, and that the public usually pay.

One day there is a little trouble. It may be that the banks, detecting danger, decline to lend money freely, or there is a little trouble in the political world—any trifle may turn the scale. Brokers become alarmed, and press their clients to reduce their commitments, dealers are anxious, and attempt to get their books square. There is a rush to sell, and the feeling of alarm becomes almost a panic. Then we have a "slump," a headlong fall in prices. Shares and stocks are reduced somewhere near their proper value. As the Stock Exchange settlement approaches City men become anxious. There are whisperings as to the position of So-and-So. The account day comes round when payments have to be made. That same evening anxious members of the Stock Exchange hear that the cheques of this firm or that have been returned. Next morning perhaps a "waiter," as the porters in the Stock Exchange are called, steps up into a rostrum, and a sudden deathlike stillness in the markets follow the three raps with the wooden hammer. He then reads the official intimation, stating that Mr. X. Y. Z. is unable to meet his engagements. This declaration, which is termed

the "hammering" of the member, causes his membership of the Stock Exchange to cease. After a period of over-speculation such failures are often of serious consequence, and it is with something like a sigh of relief that members hear only names of unimportant firms declared defaulters, for the suspension of a big firm, involving delays and partial payments, may have very serious consequences, and cause the collapse of many smaller men.

When we come to consider the "Rights of Shareholders," we will examine the position of the public who find themselves a creditor through failures on the Stock Exchange. Here it is sufficient to say that when a firm fails, its affairs are entrusted to the Official Assignee of the Stock Exchange, who winds it up and distributes the assets. The "defaulter," as the member who has failed is termed, is excluded from the Stock Exchange, and is refused re-admittance absolutely if his estate does not produce 10s. in the pound, or if his conduct has been dishonourable.

Once a fortnight, as we have seen, the Stock Exchange settles its accounts, except for Consols and a few other stocks, which are settled once a month. It may be that during the account, as the period from one settlement to another is called, a considerable speculative account has been open. There are the "bulls," those people who have nominally bought, but have no intention of paying, hoping to sell again at a profit ere long. On the other side, there are the "bears," those who have

sold what they do not possess, hoping that a fall in prices will enable them to buy back at a profit. When the settlement comes round the first two of the four days are devoted to fixing "rates," and also the prices at which the stocks and shares are "carried over" or continued into the next account. These two days are called "contango days." On the first of the two days mining shares are so dealt with, on the second day the remaining descriptions. The prices fixed for carrying over are called making-up prices and represent the middle prices at noon on the contango day. If the "bulls" have opened commitments during the account, then the difference between their buying price and the carry-over price goes to them if the latter is the higher, and if not, they have to pay it away. If the carry-over or making-up price is lower than when the "bears" sold, the latter reap an advantage, and contrariwise if it is higher. The amounts are called "differences," and they will be paid on the last day of the settlement, technically termed "pay day." The corresponding expressions in America for a "bull" or "bear" are "long" and "short," and to be "short of stock" is a phrase much in use on this side of the Atlantic. There is another zoological term in common use on the Stock Exchange. When a new issue of stocks and shares is made, there are often people who apply when the quotation is above the issue price, or stands at a "premium" as it is called, and trust to secure this premium by selling the shares in anticipation of or

following an allotment. Such people are nicknamed "stags."

By "bull" and "bear" operations the markets are to a very large extent kept employed. Sometimes there is open a big "bull" account, a number of purchases for which there is no intention of paying in cash, but which were made solely to obtain a profit on a subsequent sale. This is often a source of weakness to a market. Sooner or later the stocks or shares must be sold, and any scare may bring about a rush to sell and cause a serious decline. At other times there are many people who have sold for a fall, with the intention not of delivering stocks and shares to a buyer, but of buying back later at a profit. This is often a source of strength to a market, for sooner or later the "bears" must buy back, since they are unable or unwilling to deliver securities. That buying back may be precipitated by unexpectedly good news, and they may rush in to buy. The stock market articles will talk joyfully of a "bear stampede," of "driving the bears to cover," and so forth, and prices will rise rapidly.

Every settlement these "bulls" and "bears" must take or give their "differences" to settle their accounts. Theoretically speaking, all stock is actually paid for on these days. Although a "bull" or a "bear" may not see the process, every "bull" pays hard cash for the stock or share, or pays to be excused from so doing. Money is virtually borrowed for the purpose, and the amount

which is paid for this purpose is a kind of interest on the money and is called the "contango." In practice the process is easy, and "bear" sales cancel "bull" purchases to a very large extent. How high this "contango" will go depends upon the interest rates on money at the time, and also on the relative amount of the commitments of the "bulls" and "bears" in the market. If there are very many more "bulls" than "bears" they may have some difficulty in arranging to carry over the speculation into the next account, and then the contango is often a stiff charge. Sometimes the "bears" outnumber the "bulls," and the process of paying is reversed. The "bears" do not want to be made to deliver stock, and pay either for the privilege of being allowed not to do so, or for borrowing stock for the duration of an account. The amount so paid is called a "backwardation," a term abbreviated in common use into the expression "back." Occasionally the "bulls" and the "bears" are about equal in strength, one side cancelling the other, and the settlement rate is described as "even." The settlement rates are quoted either as so much per cent per annum for the account, or the actual charge is given. We shall find the contango or backwardation quoted much as the prices of stocks are quoted. There will be two figures. Thus on a certain stock let us say that the contango is quoted $\frac{1}{8}$-$\frac{1}{4}$. Now, just because jobbers are the dealers in stocks, they are the people primarily affected by the carrying-

over arrangements, and indeed provide for them. The jobber, as it were, deals in these continuation or carry-over rates. Thus a "bull" will pay as above the higher rate, or $\frac{1}{4}$.[1] The "bear" receives the rate, but will only take the lower from the jobber, or $\frac{1}{8}$. The difference is the jobber's turn, out of which he will have to provide interest payments on capital borrowed to finance him during the account and provide for this settling-up of bargains. The "bull" does not pay for his stock, consequently the jobber or somebody else must hold it for him. The "bear" does not deliver stock, but it has to be borrowed for him elsewhere. Money is paid for privilege. The "jobber" is not compelled to carry-over, but is usually expected to do so.

We have seen that the ordinary settlement occupies four days. On the first two days the continuation rates are arranged. The second day is called "name" or "ticket" day. On this day brokers pass on the names of purchasers of various securities, and these are passed on in turn until the actual seller of the security, or his representative broker, is discovered. On the last day of the settlement payments are made, and securities handed over. If the buyer of a security does not complete his buying when the certificate and transfer are offered at the settlement or within ten days after, the broker representing the seller may requisition the services of the official broker of the

[1] Technically speaking, in carrying-over, the "bulls" are "*givers on*" securities, the "bears" *takers in* of securities.

Stock Exchange, who will sell the stock for him to the highest bidder in the "House." The difference between the price thus obtained and the price originally offered, together with the charges, have to be paid by the original buyer. The process is known as "*selling out.*" Contrariwise, if the seller does not deliver over the securities in the proper time—ten days are allowed for all registered stocks and shares—the broker of the buyer requisitions the services of the official broker, who goes into the market and bids for the stock. If he has to pay more for it, the difference in the price, together with all expenses, can be recovered from the seller. This process is known as "*buying in.*"[1]

For speculative business of the kind under discussion, no registration fees or stamp duties are required, other than double the usual stamp on the contract note. This because carrying-over is really *two* bargains. As regards commission, the custom varies somewhat with different brokers, but usually the ordinary commission is charged for the original sales and purchases, half the ordinary commission every time the stocks or shares are "carried over," and nothing on the final sale or purchase. Frequent wealthy clients will often be able to make special terms.

In speculative transactions of magnitude, or where the client is weak, the broker may ask to be covered against loss. This may be done by lodging securities or cash with him. Remember that all

[1] Bearer issues are "bought in," etc., on day after settlement.

the money that is borrowed from the bank by the member to finance his speculative business has to have "cover" set up against it. Usually with the security handed over as cover to a broker by a client, there is a "blank transfer." The person giving the security hands over a transfer in which the name of the transferee is left blank, but the signature of the transferror appears and is duly witnessed. At the same time the corresponding certificates are given over into the keeping of the broker who is taking security. The legal position of the holder, of the blank transfer, and the legal safeguards against dishonest action on his part, will be discussed in the next chapter. Bankers, when advancing loans on securities, usually require a considerable excess in the market value of the securities over and above the amount advanced. This "margin," as it is called, varies according to nature of the security, and may be held to average 10 to 15 per cent, but the bankers are under no obligation to continue the loan, and in anxious times their action in calling in their loans to the stockbrokers and others often tends to precipitate a crisis. The banks usually take very good care of themselves. In any case, there are some classes of "security" upon which the banks would rarely or never grant any advances.

Few stockbrokers will deal with a client on the system of limited losses, or cover system, concerning which so much is occasionally made by some of the "outside brokers." A broker will, of course,

retain an order to buy or sell, as the case may be, at a certain price. But the cover system as understood by the outside broker or "bucket-shop" keeper amounts to this—You give, let us say, £5 as cover on £500 of stock bought. If the stock drops £1, the "cover" is *ipso facto* lost. Or you give the same cover for a "bear" operation in the same amount of stock. If the stock rises £1, the cover goes. If it fell, there would, of course, be the profit. Unfortunately, too many of these outsiders forget to deal at all if the stock is going against the client, and when the amount of the "cover" has run off, write and tell him that he has lost his money. And some of these outside brokers have very curious ideas of market movements, and are not above straining $\frac{1}{8}$ or $\frac{1}{4}$ against the client when first dealing, and with a stretch of imagination of $\frac{1}{8}$ or $\frac{1}{4}$ the other way a little later, the "cover" may be pocketed with ease. Now, if there is any doubt as to the genuineness of the transactions with a broker who is a member of the Stock Exchange, the client may demand to see the entries of his bargains with the "jobber," and this is a great safeguard which he does not possess when dealing with the specious outsider. The latter individual is usually best avoided. By their public advertising and touting methods you shall know them, as we said before.

A very important branch of Stock Exchange business, which is not well understood by the general public, but which has no inconsiderable

market influence, is that of the arbitrage houses. In order to understand it we must glance very briefly at exchange operations. Assuming that the nations concerned have a gold basis, and that the currency, as measured in gold, is not therefore of greatly fluctuating value, we may note also the effects of trade. Between one country and another there is always trade passing, and goods have to be paid for. We may owe France money, and France owes us money. Neither would wish to transmit gold, which would be unnecessarily expensive. The banking-houses practically arrange the matter, through the medium of the bills of exchange created, and instead of sending money bills are bought or created. In the ordinary way the pound sterling = 25·20 francs, and that ratio is called the "par of exchange." If the balance of payments has to be made by us to France, we shall be willing to give something in order to avoid the cost and trouble of shipping gold to that country. So that we shall take something less than 25·20 francs as the equivalent of the sovereign, but of course we should not accept less as the equivalent when purchasing bills of exchange than it would cost to transmit the money safely. So, too, in Paris, when France owes us more than we owe her. They would be willing to reckon their equivalent of a sovereign as more than 25·20 francs, but would give no more than it would cost to send over the money safely to this country in order to pay the indebtedness. Very briefly and imperfectly, although enough for

our present purpose, this may be said to represent exchange operations. The points at which it would be more profitable to ship gold either way are called the "gold points."

Now exchange is always varying, and when a stock is dealt in on two markets, it may be that the price quoted, say, on the London Stock Exchange, is such that it would pay the French to buy that stock here; for, after providing for exchange and all charges, there may be a small fractional gain, which on a considerable amount of stock may amount to a really appreciable profit. Work of this kind is done by highly-skilled Stock Exchange houses which make a specialty of the business, and the transactions commonly go by the name of "arbitrage" business, the houses transacting it being known as arbitrageurs. Leaving out the fluctuations of exchange, the same method of trying to buy on one market in order to sell at a profit on another, or *vice versâ*, is carried on in this country between the various exchanges, and when dealers are doing this class of business they are said to be "shunting." In a word, then, shunting is arbitrage business with the worries of exchange left out.

Another form of speculative business on the Stock Exchange is that connected with options. The public, it has been said, are always "bulls." For some reason the man who believes a stock must rise and buys it on chance of making a profit, and with no intention of paying for it, is regarded

as an estimable individual, whereas the man who sells a stock without intending to deliver it, in the belief that it will fall, is regarded as a nuisance, if not a rogue. The public only understand the one form of speculation; and, for that matter, most professional operators are much the same in their views of speculative business. Even less understood by the public is "option" business, in which, perhaps, the chief portion of the legitimate speculation by the leading operating houses is done. An option, as its name implies, gives a right to deal, and it may be of two chief kinds, a "put" or a "call." If we purchase the right to "call" stock at the end of next month at a certain price now agreed upon, we are doing option business; and if we have a profit shown we shall certainly sell, call up the stock from the person with whom we arranged the option, and secure the profit. On the other hand, if the price goes against us and no profit is shown, we shall not exercise the call, and we simply lose the amount originally paid for the right. A "put" option is the right to "put" or deliver certain stock at a certain price on a certain day, and we pay a sum arranged for the privilege. We secure the option to put £5000 worth of South-Eastern deferred at 70 for the end of next month. The stock may fall to 65, at which price we buy it in the open market, and deliver it to the original dealer demanding 70 for them. This is paid, and we pocket £5 per cent profit, less expenses of the price paid for the option. If the stock

rose to 75, we should not, of course, buy, for our bargain was only to be allowed to ask 70 for them. Sometimes these "single" operations are not sufficient for a speculator, especially when markets are likely to fluctuate widely. He may buy the double option, the right either to "put" or "call" as he may please. The actual Stock Exchange operations, whereby the dealer protects himself against danger, are somewhat too intricate to explain briefly, and have no point of particular interest to the ordinary public.

CHAPTER V

ON THE RIGHTS OF SHAREHOLDERS

THERE is nothing concerning which the average investor has such hazy notions as his "rights." Reference is not made here to what are called "rights" in the market, but to the legal powers and privileges as against the company in which he is interested, or against individuals in the preservation of those privileges. Those journals which throw open a portion of their columns for the purpose of answering correspondents are constantly being asked the same elementary questions. It may relieve some pressure on their space to state briefly how the shareholder stands.

Before a person is a shareholder he must obtain shares. That is obvious enough. Let us take then the case of a new company. The prospectus is advertised; and never before, the reader might imagine, had such an advantageous proposition been offered to the public. Everything is so satisfactory that the only wonder is that the holder of the business ever wanted to part with it. But one

morning there appears a paragraph in a newspaper asking a few pertinent questions—the directors usually think them *im*pertinent. Or a friend tells him that the wonderful business in which he is taking a share is rotten to the core, that its machinery and plant require to be replaced, that its one sound business head is leaving, or some little matter that makes all the difference in the world. He wishes that he had not filled in that application form for shares. Fortunately, he may have a remedy. If the shares have not been allotted, or even if the shares have been allotted, and nothing has been done to communicate the fact to him, he may withdraw. He can do so by letter or by telegram, or it is sufficient to inform the secretary by word of mouth. If the secretary happened to be out of the office when he called, it is sufficient if he informs a clerk of his withdrawal. But if the allotment letter or a written intimation have been posted to him, even though he had not received it, no withdrawal is possible. Indeed, if he made the mistake of asking the secretary or a clerk over the counter whether an allotment had been made, and he was informed of the fact, he could not then withdraw his application for shares, even though the allotment letters had not been posted. If anything should come to the knowledge of an applicant for shares which alters his opinion as to their value, he should at once withdraw his application while he can.

Another matter that is the cause of many ques-

tions and no little sense of injustice, is the liability for calls on shares. If the investor should wish to abandon his shares, he cannot thereby avoid the liability on them if they are not fully paid. He may sell his shares, but to some extent he is liable if the purchaser is unable to pay the calls due, unless a year has elapsed since the sale. If he continue to hold the shares himself and fail to meet the call when it is made, the directors may, if they are so empowered by the Articles, forfeit the shares, and yet have the right to proceed against him for the amount due. But before forfeiting shares, directors are compelled to give notice of the forfeiture in terms of the Articles of Association. Once forfeited, the shares become the property of the company, which is able to sell them again if the directors please. Although shareholders cannot escape the liability for calls on shares, the instalments of debentures or debenture stock cannot be obtained by legal process. If a debenture holder declines to pay instalments due, there is no recovery, but he may, of course, have to forfeit his instalments that have already been paid.

No shareholder is compelled to accept a reconstruction scheme. He may abandon his shares. In the winding-up which precedes the reconstruction, however, he was formerly entitled to his share of the surplus assets of the company. This usually worked out at little or nothing. Companies are not usually reconstructed, with a liability on their new shares for mere amusement. Whether he is

entitled or not under the present Act, we have discussed elsewhere (p. 87). As to preference shareholders, they should carefully note how their rights are safeguarded in the company's regulations. Unless otherwise provided, dissentients are bought out.

Every shareholder has the right to search the register of his company in order to discover who his fellow-shareholders may be, the date of their acquisition of their holdings, and the number of shares held. So for that matter has the casual caller-in the right to search the register, but he must first pay his shilling, whereas the shareholder of the company has his search for nothing. The company must set apart at least two hours a day for the purpose of callers-in who wish to search its register, but for thirty whole days in each year the register may be closed on the intention being previously advertised. Moreover, any searcher may apparently take a copy of what he finds gratis, and in any case the company is bound to provide him with one on payment of sixpence for every hundred words copied. If the secretary or officials make any unnecessary trouble in the matter, the shortest way is to step round to the nearest police court and apply for a summons. There is a respectable penalty for the officials to pay. Very much the same applies to the register of debentures and mortgages, the amount thereof, and the debenture-holders and mortgagees. Such a register must be open for the inspection of any member or creditor without charge.

Once a year at least the directors are supposed to issue a report of the company's affairs to the shareholders, and subsequently to hold a meeting. Moreover, when the company is formed, a meeting, called the "statutory meeting," has to be held within three months, and not less than one month from the date at which it is entitled to commence business. These meetings it is the privilege of the shareholder to attend. Before the statutory meeting he will be told by a circular from the company how the shares have been allotted, and in what number, what moneys have been received or spent in connection with the capital account, the names and addresses of the directors and secretary, and if any have been appointed, the names and addresses of the auditors and manager. If there are any contracts to be modified, the particulars will be furnished at the same time. At the meeting itself a shareholders' list will also be forthcoming. These statutory meetings are then practically limited to discussions as to the formation of the company and points in connection therewith, in addition to the subject-matter of the directors' report previously sent out to the shareholders. If the statutory meeting is not called within fourteen days of due date, or if the report to be presented thereat is not filed, the winding-up of the company may be applied for. Oddly enough, although a shareholders' meeting is prescribed by law, and each company is required to hold one at least once a year, there is still no penalty for failing to do so.

Nor are the directors compelled by penalty to present accounts or a report. They are supposed to present a balance sheet to the meeting, and the auditors have to certify that their requirements have been met with. No profit and loss account need be published, unless provided for in the Articles of Association, but even when such an account is not sent out to the shareholders with the report, it is usual, although not compulsory, to lay it on the table at the meeting for inspection by the shareholders.

We have referred to the general rights of shareholders in respect to allotments. It may be mentioned that where there is a guarantee of the minimum subscription, as where the minimum has been underwritten, the directors can proceed to allotment at once; but otherwise they will have to wait until the minimum has been applied for. In this respect the subscribers are in rather better circumstances under the new Act, as they may more frequently have time to withdraw from a doubtful venture. Indeed, where no minimum amount is mentioned in the prospectus, the law argues that the whole of the capital offered has to be taken up. The remarks that have been made as to the power of withdrawal of applications for shares apply also to cases where a subscriber wishes only to withdraw in part—that is, where he wishes to take a smaller number of shares than were originally applied for. A minor can, of course, repudiate an application for shares in any circumstances.

When there has been misrepresentation or suppression of material facts in a prospectus, a shareholder may recover his subscription money by legal process, and in some instances, of course, criminal proceedings may be taken. If the company's prospectus has not complied with the provisions of the important "Section 10"[1] of the Companies Act, there usually lies an action for damages on the part of those who have lost money by such non-compliance against those who were responsible, and possibly also an action against the company.

Before a meeting takes place it is remarkable how many kind friends there are of whom the shareholder had no previous knowledge. The directors, of course, demand his support, whether they deserve it or not. So probably do certain opponents, and they may be merely working for their own ends. It is always advisable, if possible, to attend a meeting in person. If the shareholder cannot do this he may usually give a "proxy" to the directors or other people. These proxies, which are testimony that the persons to whom they are given have the right to represent the shareholder

[1] Section 10 of the Companies Act, 1900, provides that, among other things, the prospectus must state the commissions, etc., paid in connection with the promotion and underwriting of shares; what shares and debentures have been issued to the date of the issue of the prospectus, and for what consideration; the material contracts for three years previous, or for two years if the company was entitled to commence business before the issue of the prospectus; the amount of shares to be subscribed before the directors go to allotment; and the names and addresses of the *real* vendors and the purchase consideration.

and use his votes as they think fit, must bear a penny stamp, and must be signed by the shareholder, and should bear the date of the meeting. A proxy only stands good for one meeting, unless it bears a 10s. stamp. Shareholders may withdraw proxies, transferring the right to represent them. Often one must hold shares three months before voting.

When shares are sold it is in the power of the directors of companies in certain circumstances to refuse to accept the buyer, and therefore to refuse to accept the transfer document. Thus, if there be any doubt as to the genuineness of the transfer, or if the document were not in order, the company might be liable. In order to protect themselves it is usual to send a notice to the seller, informing him of the request to transfer. Where there is any liability on shares, the directors may often also refuse to transfer into the name of a buyer until they have convinced themselves that he can pay the calls. This is, of course, perfectly right, for after the lapse of a year there is no remedy against the original seller, and failure to pay the calls would be hard on fellow-shareholders or debenture-holders. It is a curious feature that where the seller has clear title and delivers the transfer and the old certificate, he may retain the money paid to him and refuse to take back the shares, even though the directors decline to accept the buyer as a shareholder. The remedy for the buyer is, of course, to sell to somebody whom the directors will accept.

Very often what is known as a "blank transfer" is given as security, sometimes to a stockholder when the owner of shares is speculating in other shares and the broker does not consider himself sufficiently secured. In this case a transfer form is made out and the name of the transferee is left to be filled in if occasion arises, as, for instance, if the holder of the shares found himself unable to meet his liabilities. Naturally, if the person to whom the blank transfer is given should fill in his name without proper reason he cannot obtain the shares. If he should fill in the name of another person, and give the transfer over for valuable consideration, in good faith so far as the new buyer is concerned, the shares may pass to the third person, and the remedy is, of course, in the court against the person who filled in the name. There is one other point about a transfer that should be noted. Even though a transfer may be forged, and on the strength of it a share certificate is issued by a company, the rights of the true owner are in no way infringed, and he can recover dividends due from the company itself and demand to be placed on the register again. But, unless the company has made itself liable by accepting the Forger Transfers Act, it need not compensate the supposed purchaser.

If there is any reason why the transfer of stocks or shares should be stopped, it can be done by giving notice to the company in the proper form, providing that the person who gives the note is

interested in the stocks or shares about to be transferred.

If a share certificate should be lost or stolen, a new one may be obtained from the company on notice being given, after due inquiry and usually public advertisement on the part of the company. Share warrants made out to "bearer" are at a disadvantage in this respect, as if lost or stolen there is no remedy, unless the thief can be caught red-handed. If the "bearer" shares have been sold to a third person, acting in good faith, that person can keep them.

Unfortunately the law lays down no definite rules as to delays in accepting transfers and granting certificates, either on sales or in connection with a special settlement. The Stock Exchange committee could do much to remedy the scandalous delays that sometimes follow an allotment of shares before the certificates are issued and a special settlement granted. A properly conducted company should issue the share certificates as soon as possible after the allotment of shares. The Courts will order the certificates to be issued if there is prolonged and vexatious delay. As regards the time that should elapse between the purchase of shares in the market and the receipt of a certificate, the transfer form should be received within ten days after the next settlement at the most, as soon as the name of the original seller has been discovered and the transfer form filled in and sent to the broker of the buyer. Otherwise, the remedy is "buying in" as previously

described. The company should not retain this form beyond the next board meeting before passing it, and the certificates should be issued as soon as possible, and certainly within a month. Unfortunately many companies are somewhat dilatory in this process. It should be noted that according to custom the buyer, and not the seller, pays the necessary stamp duties. Where shares are transferred by way of gift, it is usual to enter on the transfer a nominal amount, such as 10s., as purchase price, and the form will bear a 10s. stamp.

As regards debenture-holders, whose claim is that of creditor and not a partner of a company, they should carefully note their position, for some debentures are not secured by any specific mortgage or other charge, and are no more than a mere promise to pay. If the debentures are secured by mortgage, and there is a winding up, the holders will rank in front of ordinary creditors instead of with them. Moreover, the company could mortgage over the heads of its floating[1] debenture-holders. In some cases there is little or no property on which the security of the debentures is fixed, and the charge is often a floating charge on the assets, even though called a mortgage debenture. Thus, the fixed property of a company may be worth merely a few hundreds, and the security be that of stock-in-trade, goodwill, etc. The charge may be worth little. In case of default in interest or the payment of the

[1] If a mortgage is *fixed*, it has prior claim at all times on property affected. If *floating*, then only when debenture claims arise.

principal, any of the debenture-holders has the right to sue the company, or apply for a receiver, or apply for the sale of the property which has been mortgaged. All the debenture-holders, acting together, may resort to foreclosure.

The position of preference shareholders is sometimes curious. Occasionally they have no right to vote at a general meeting, and may even be excluded from it. The exact rights of the preference shareholders will be seen in the Articles of Association and other documents, and if they are not there limited, the preference shareholders will have the same rights as the others in respect to voting at general meetings, nor can the other rights of the preference shareholders as set out in the various documents be infringed. But debentures may be issued over their head, unless it is stated in the Memorandum of Association of the Company that such may not be done. Always remember that it takes an Order of the Court to alter the Memorandum of Association, but that very often the majority of the shareholders themselves can alter the rights as set out in the Articles of Association.

Frequently a shareholder only wishes to sell out a portion of the shares standing in his name, and for which he holds a certificate from a certain company. In that case he must return the certificate to the company when he effects the sale, just as he would surrender it to his broker to be passed on to the company when selling the whole of the shares. The company will then issue him a new

certificate giving a true description of his holding in the concern.

An investor may appoint another person to act for him in the matter of his investments, and the person so appointed is called the *attorney* of the other. A deed has to be drawn up, in which the powers granted must be stated. Sometimes such a deed is drawn up for a special occasion, as when the seller of a security cannot attend at the Bank of England to transfer holdings in the form prescribed (see Chapter III. pp. 43, 44, above).

Occasionally the question arises as to the right to retain dividends. The rule is quite simple. If the stock or share has been declared ex-dividend, the holder retains it when selling. If it is not ex-dividend, the purchaser takes the right to it. As to exceptions in the case of the right of "accrued dividend," the rights may be consulted under that head in Chapter III. of this book. Where bearer securities are concerned, they are ex-dividend on the day when the dividend is payable. With other securities they are often ex-dividend before that date. If we buy stocks, together with rights or dividends, and owing to the transfer books being closed, or other reason, the seller receives them, he will of course be compelled to pay them over. Usually our broker will deduct dividends thus due from the selling price.

At times there are difficulties where a broker or a jobber fails. When a broker fails and is indebted to a client, the latter in effect passes him by and

deals with the jobber. All stocks and shares in the keeping of the broker and belonging to the client will be returned to him intact. He will receive stock for which he has paid, and payments for stock he has sold. When the jobber fails there are some difficulties, and the law is rather obscure. Usually a broker of standing accepts responsibility, for of course he had the choice of dealing with whom he pleased in the particular market. But if he should decline responsibility, there is probably no remedy against him, but we can scarcely judge from the position of other agents owing to the customs of the Stock Exchange being an important factor. It would seem that when a jobber fails, unless the broker chooses to accept responsibility, the client is compelled to pass him by and deal, so to speak, directly with the jobber. What happens on the Stock Exchange is that the defaulting jobber's estate is taken under the charge of the official assignee. That person proceeds to settle the estate.

CHAPTER VI

THE CAREER OF A PUBLIC COMPANY

IT would be well if the investing public took a little more interest in the position of companies in which they are concerned. They receive reports and dividends, or apologies in the place of them, but have very little idea as to how a company is or should be conducted, or what they have a right to expect. Directors can play all manner of tricks with their shareholders without much fear of the consequences. The game is one-sided; the directors hold nearly all the winning cards. The mere investor knows little or nothing of the tactics, and so long as the directors keep within the law, and often if they do not, they can do much as they please. The impartial observer who knows the ways of directors and shareholders and attends a meeting of a company when there is bitter controversy on points of management, sees clearly what a disorganised rabble the shareholders are. They detect little, think it "better to trust the devils they know" rather than the devils of whom they know nothing,

and so the old slipshod methods go on. The previous chapter may have enlightened the shareholder on a few points. In this chapter an attempt will be made to sketch the career of a company from the cradle to the grave, in order to elucidate a few main points worth knowing.

First as regards promotion. There is a limited liability company to be floated, and possibly a certain promoting group may have secured it for the purpose. It will be necessary to register the company at Somerset House, or at Edinburgh or Dublin. Seven persons may form a company, and that number of signatories is required to a document which sets out the name of the concern, where its offices are, the objects of the company, a statement that the liability of subscribers is limited, and the amount of the capital, with the nominal value of the shares. This document is called the *Memorandum of Association*, and it can only be altered, when once filed, by consent of the Court. The signatures to the Memorandum are merely farcical, any gutter-snipe being good enough to sign so long as he is taking a share. This document will go to the registration office, as mentioned above, after being duly stamped. Then a declaration by a solicitor or other qualified person has to be made that the requirements of the Companies Acts have been complied with. In addition to the Memorandum of Association, which gives a description of the company, there are also the Articles of Association, which regulate its internal

business methods. Very often a glance at the Articles of Association of a company would considerably surprise a shareholder, for he would discover that the directors have powers under those Articles which considerably affect the safety of the shares as an investment. The Articles have to be handed over when the company is registered, and are always available for search, but intending shareholders usually disregard them altogether, for trouble is often necessary to effect a search. There are also handed over to the Registrar of Joint Stock Companies the names of the directors, their signed consent to act, and their share qualification. When these and a few other formalities, including the payment of fees, have been complied with, a certificate is issued of the incorporation of the company. It should be noted that if no special Articles are drawn up to regulate the internal affairs of a company, a special set of articles entitled "Table A" is applied to the conduct of its business. A copy of the Articles must be supplied to any member who requires it, on payment of one shilling.

The first directors of a new company are appointed, as a rule, either by the Articles or by the signatories of the Memorandum of Association. We have now got to the stage of arranging for the appeal to the public. In order to ensure the success of a company, it is often the case that the shares are underwritten, *i.e.* certain people agree, usually for a consideration, to take up so many shares, if the public do not subscribe to the issue.

The Articles of Association have to authorise the payment of underwriting commissions, and if a prospectus is issued, the amount so paid has to be there stated. Often, presumably, under the new Act, when it would be undesirable to disclose a heavy amount necessary for this purpose with a shady company, or other unsatisfactory features in respect to the concern, a market will be made in the shares. They will be taken firm, and dealings will commence in them on the Stock Exchange, and by means of newspaper paragraphs, advertisements, or otherwise, the public will be attracted. It must be noted that shares may not be allotted below their nominal value.

With the features of a prospectus, rights of the public, and certain information which has to be available in connection therewith, we are dealing elsewhere. It may be that in the flotation of the company certain shares are reserved which are entitled founders' shares. Fortunately, the law demands that a prospectus shall state what are the rights of these founders' shares, for often they are such as to hamper the ordinary shareholders seriously. They are usually deferred shares, which take a certain portion of the profits after the ordinary have received a fixed amount. They usually go to the promoting gang, and are exceedingly serviceable, where a company is something verging upon a swindle, if the voting power attaching to them is substantial enough, and if, on the other hand, the concern should unexpectedly

prove to be a good one—and such accidents have happened before now—the ordinary shareholders usually find that an altogether disproportionate amount of the gains go to the founders. A common dodge, too, with a certain class of dishonest promoters is to offer founders' shares to subscribers of a fixed number of ordinary shares, enlarging on the advantage if the company does well. It is a bait to which the public usually rise greedily. The principle is a bad one, and at the best these shares often seriously diminish the chances of an adequate reserve fund being built up.

The questions of allotment and the statutory meeting are fully explained elsewhere. Suffice it to say here, that after the shares are allotted, which should always be *pro rata* to the applications, unless small applicants are specially encouraged, a statutory meeting must be held within three months and not less than one month after the date at which the company is entitled to commence business, which is the date at which certain requirements in regard to applications for shares, receipt of subscription moneys, and qualifications of directors, have been complied with, and a declaration made to that effect in the legal way by the secretary of the company. The company will have to keep a register of its members, and also a register of all mortgages and charges.

When the time for dealing with the profits of a company comes round, the directors will, of course, have paid out all sums necessary to meet fixed

charges, such as interest on mortgages, rents, and so forth; and if any provision has to be made for a sinking fund to redeem debentures, this will be done. If the directors see their way to do so, they may distribute an *interim* dividend, *i.e.* before the distribution for the year is made. It is grossly bad finance to pay an *interim* dividend unless the directors are sure that the rate can be maintained for that final distribution, and directors who are responsible for such a mistake are usually not fit to remain in office. Directors should not be allowed to distribute "up to the hilt" without being closely questioned on several points. Thus depreciation of property (and especially of leaseholds) and machinery should be provided for out of the profits, and care should be taken to provide against bad debts. Further, care should be taken that an adequate reserve fund is being built up, and very liberal amounts should be added to this fund in good times. Too often shareholders are blindly content so long as the dividends are paid, and when "bad times" come there is reconstruction with heavy loss. Moreover, a considerable portion of this reserve should be invested outside the business, in securities that are easily realisable, and shareholders cannot insist too strongly on this point. Further, these securities should be stated *seriatim* in the report. A reserve fund invested in the business has been too often found worthless in times of disaster.

When it is imperatively necessary to issue new

capital the directors should consider which is the cheapest way. Even with some of the best companies there is too much disposition to bribe the shareholders into acquiescence. A prior charge is often the cheapest method of raising capital. Usually, however, when shares stand at a premium, directors will offer new shares to shareholders at such a price that there is a profit in taking them. Sometimes the method may be unavoidable and advisable. Often it is a most dangerous method of pandering to the greed of present shareholders to the serious loss of the company later. This system of bonus charges has in some cases been pushed to extreme, and when £1 shares have been steady at big prices, the bonus shares have been offered at "par." Thus the company has gained little by its excellent credit, and relatively large amounts of new capital have to rank for dividend. Shareholders being, like mankind as a whole, mostly fools, there is not perhaps much use in raising an objection at a meeting, but the wise shareholder will soon clear out when he sees the directors resorting to such tactics. New capital cannot be issued or placed in priority of existing capital, unless authorised by the Memorandum or Articles of Association; or if these do not give the authority, then not unless the shareholders pass a special resolution to that effect.

Following the declaration of a final dividend for the year, or failing it, the annual report and statement of accounts should appear and the annual

meeting be held. Directors with something to conceal have a way of arranging these meetings for the last days of the year, when the Christmas holidays interfere, and they may expect few shareholders to attend. Whenever there is anything shady of this kind, depend upon it that in nineteen cases out of twenty the company is far better wound up or left to others. Indeed, if shareholders paid more attention to the business of their companies very many concerns would not continue in existence for long. If it should become necessary to liquidate, whether for reconstruction or otherwise, it may be effected in three ways. If there is no objection on the part of creditors, the cheapest method, and usually the most satisfactory, unless there is something that requires elucidation, is voluntary liquidation. This may be resolved upon by resolution of the proprietors, or whenever the company has been formed for certain business or for a fixed time, and the conditions have been fulfilled. The company then ceases to carry on business, and its affairs are taken in hand by a liquidator, who liquidates the assets, pays off the debts and distributes the surplus, if any, to the proprietors. But creditors may fear for their security or wish to have a closer inquiry, and may wish the Court to examine into certain matters, or the company itself may, through its shareholders, desire it, and a compulsory winding-up order may be granted by the Court. The advantages attaching to this order are that the persons who have

taken part in promoting, forming, or conducting the company may be publicly examined on oath on all matters connected therewith. Unless, however, there is reasonable ground for suspicion the process is usually more tedious, expensive, and less profitable in ultimate returns than voluntary liquidation, often leading to considerable litigation on side issues. There is another process whereby a liquidation is carried out under the supervision of the Court. This process is practically valueless now-a-days, and differs little from voluntary liquidation in its effects. In an elementary treatise, touching briefly on this important question, it is impracticable to go further into the matter, and the above very brief outline must suffice.

Where there is a winding-up with a view to reconstruction, and certain shareholders objected to this course being taken, they could under the old law demand to be bought out if the reconstruction were proceeded with. The new Act seems a little obscure, and its wording may perhaps be taken to mean that where a majority of shareholders approve of a reconstruction scheme, dissentients have no right to be bought out, and are bound by the will of the majority, although of course, as is pointed out in the previous chapter, they are not bound to accept shares in the new company, and can therefore avoid the calls. The law on this point seems, however, sufficiently obscure to justify the belief that an early judicial pronouncement on the subject may be sought for, where a recalcitrant shareholder

objects to being compelled to waive his rights in a company in favour of a reconstruction scheme.

So far we have been glancing at various phases in the life of a limited liability company. There are, however, other classes of companies that deserve brief notice, although they may not often concern the ordinary investor. Thus some companies, notably Cornish tin mines, exist under the Stannary laws, and the "cost book" method of regulating their accounts is an important consideration. In these companies the par value of shares is not fixed, and the shareholders, whose names are entered in the cost book, are liable to be called upon to pay moneys for development and other work. Their shares can be forfeited if they should refuse to pay, while they cannot avoid any such call. Indeed, even if they should surrender their shares voluntarily, and the surrender is accepted, they are liable for their share of any deficiencies if there should be a winding-up order within two years of the time of leaving the company. A company under the Stannary laws is thus, practically speaking, an unlimited liability company. It must consist of at least twenty members, and it can only exist within the jurisdiction of the old Stannaries Court—that is, in Devon and Cornwall. The "cost book" system is really a curious old form of partnership, in which each member had the right to transfer his share when and to whom he pleased.

When a new company is formed in which there are any Stock Exchange dealings, present or pro-

spective, it will be found necessary to apply for a special settlement. This should not be delayed in the ordinary course, owing to the fact that as dealings will be for this settlement, any transaction on the Stock Exchange in the shares or stocks concerned will not be settled until the date fixed has arrived. The company itself, through its broker, applies to the committee of the Stock Exchange for the special settlement, and if the company has complied with the requirements it will be granted. Thereafter, bargains will be settled on the ordinary account days. Unless the shares of a company are "settled" on the Stock Exchange, it is, of course, usually very difficult indeed to deal in them. If a company is of sufficient importance, there may also be an application for an official quotation, or a place for the shares in the daily Official List of the Stock Exchange. The advantage is that there is a daily quotation of a reliable nature where there is any business at all, and that the shares are consequently more negotiable. The Stock Exchange Committee is very exacting in respect to the methods of formation and the standing of a company admitted to the Official List. There are exceptions, of course, but usually a company that is officially quoted is one of some position, and while it is in nearly every case essential that the investor should only buy shares in a company that has had its securities officially "settled," it is a strong recommendation also if those shares are officially quoted.

CHAPTER VII

ON MONEY AND THE MONEY MARKET

BANKERS are mere tradesmen, just as your bootmaker round the corner is a tradesman. They do not always think so, and doubtless the heads of Coutts and Co. or the Bank of England authorities would object to being styled tradesmen; but so they are. Your bootmaker deals in boots, and your banker in credit—in credit, not merely cash, for cash only plays a small part. In fact, in Lombard Street very little actual money comes into play.

Do we ever think how small a part money plays in our commercial transactions? We pay our small bills in actual coin, but for larger sums we write cheques. We are paid our rents by cheque as a rule, and our dividends come in the form of a warrant or cheque. We pay our cheques into the bank, and as there are many transactions passing between the leading banks, these are struck off one against another, and the balances are usually merely a case of a transfer by writing from one account to

another at the Bank of England, where the leading bankers keep their accounts. So that, as we see, very little money passes. It is a matter of credit. Our cheque is regarded as good, because we have a balance at the bank. But if every depositor in the country demanded his balance in cash to-morrow, there is only a comparative trifle in actual cash wherewith to pay. On a very small cash basis, as we say, a big structure of credit is built up, and owing to the organisation of the banks that small cash balance is sufficient. Our country would be in a very bad way if actual cash had to pass for each bargain, and trade would be much restricted, if not almost impossible. Well-developed banking should mean a prosperous trading country.

Let us take another example. A firm of middlemen in the woollen trade buys some cloth from a millowner. He gives a bill of exchange in return, *i.e.* a promise to pay sometime later. The millowner is buying wool to convert into cloth. He, too, gives a bill promising to pay in some months' time. If he should want the ready money he will get the bill which he has received from the middleman *discounted.* That is, one of the firms dealing in credit will pay him the amount of the bill less a certain sum by way of compensation for having to wait. Now, the millowner will merely have that amount placed to his credit at his bank, and probably no actual coin passes in the transactions. All over the country these movements are going

on. Whether bills are discounted, or loans are granted at interest, there is very little actual coin passing. Thus an enormous trade is done without much actual money. Has the reader ever thought what the difference would be, if the millowner in want of a loan had to seek the actual gold, if he had to pay the actual gold for his wool, and receive it for his cloth? There would not be nearly enough coin to go round, and trade would suffer. A well-banked country like England is in a far better position to trade than a poorly-banked country like Persia. But all our bankers in handling bills, granting loans, and so forth, are dealing in credit, for they have very little in actual cash to show for the bills or the loans.

When we examine the money columns of our morning newspapers, we note mysterious references to the quotations of bank bills, "fine" bills or trade paper, we are told that money on call is quoted at so-and-so, that short fixtures are 2½ per cent, and so on. We find an opinion expressed perhaps that the bank reserve is so low that precautions must be taken to protect the resources of the "central institution," as the financial journalist so often loves to dub the bank, or we find learned references to the Bank Return, showing that the "market has been repaying its indebtedness." The mere country investor may well wonder what it all means, and pass it over. Indeed, they say at the Bank of England that the attempts of the financial writers to explain the Bank Return are a never-

failing source of amusement to the officials, and, as some say, no City writer thinks that any other can give an adequate idea of the daily workings of the money market and the prospects in Lombard Street. The present writer does not intend to try; he is content with merely explaining a few elementary facts which may help to clear the notions of the average man, and convince him that, after all, there is nothing very mysterious about money.

We have seen already that when trade is active, capital is more fully employed, there is a greater demand for the use of it, and consequently higher rates are paid for it. If we have £10,000 and there are many folk wanting to use it, competition will raise the interest rates that will have to be paid. Trading is done on borrowed capital, and therefore in busy times we find higher interest rates paid for loans. We have seen that payments are often deferred by means of bills of exchange, which are promises to pay at a definite date and are negotiable, and if interest rates are high the people who "discount" these bills, or in other words, give the promise of ready money for them, will ask more for so doing. Therefore the discount rate, the sum asked for paying ready money for the bill of exchange, will be greater when trade is active. A banker does his trade chiefly in buying these bills of exchange from a bill broker, and in lending money to customers on good security.

Let us first take the case of loans, and see what

"call money" is. Just as in ordinary branches of trade we find specialists, so it is in Lombard Street. In the building trade we have several grades, and in the money market we have several grades. There is the banker receiving evidences of capital from the public and ready to lend again. There is also the specialist, the bill-broker, with a good idea of what is the standing of commercial firms and others, who is willing to discount or give promises of ready cash for bills of exchange, or promises to pay at some distant date. The bill-broker discounts the bill and takes it to the banker. The latter discounts it on rather more favourable terms, for he is safeguarded against risk by the broker, who knows far more of the commercial firms than the banker does, and in addition warrants the bill by his own security. Thus it is that we may find the statement in our money articles that the market is accepting bills at 4 per cent, and that the joint-stock banks are working freely at $3\frac{7}{8}$ per cent. The difference is the bill-broker's profit.

If the banker has a large surplus to spare he probably lends it to the bill broker, and may lend it in such a way that he can have it back on demand. Or the bill broker may borrow directly from any one who will lend, and will promise to pay back the loans on demand. This is "call money," and is very useful to the broker in doing his business in discounting bills. But the bill broker will also borrow all the money he can on

short notice, promising to pay it in a week perhaps if demanded. For these "short fixtures" he will usually pay more. Naturally when he is pressed to find accommodation to meet bills, and has not enough money, he must turn to the banks or even the Bank of England for aid, and often we find the latter institution discounting some of his bills for him.

Of bills of exchange there are various classes, and these are usually noted in our money articles together with the amount per cent which will be deducted—that is, the discount rates—if we wish to turn them into cash or a credit item in a banking account. We hear of "fine bills," of "bank bills," "fine paper," "trade bills," or "commercial paper," and so on. Whether fine bills, or bank bills, or fine paper, it is all the same: they are merely different expressions for the same class of thing, just as trade bills or commercial paper have the same meaning. The best bills usually find their way to the bill-brokers, and constitute the first class to which we refer, and the other bills, the credit of which may not be so high, are usually discounted on more severe terms by the banks direct. The former class is accepted by the bill-broker, who backs the risk, and is consequently accepted as the best or "fine" paper by the bankers on easier terms. In addition to this trade in discount paper, we have to consider the question of international dealings in commerce, and remember that there are always demands to be

satisfied, and that a considerable business is done in foreign bills. This explains the importance of the exchange quotations. And in their effects upon the stock markets they will be naturally watched. If exchange approaches the point at which there is a risk of gold exports, there may be nervousness if our money market have none too much to spare. The Bank, for instance, may have to raise its discount rate, and take steps to advance the value of money here, in order to make its rate "effective." That will react upon the Stock Exchange very often, for enormous sums are advanced to that institution by the banks, and higher interest rates or curtailment of loans may hamper business, check speculation, and cause prices to droop. In a similar way any great internal demand will affect markets adversely, and the movements in Lombard Street rates have thus a very real interest for the constant operator on the Stock Exchange. Foreign exchange operations are naturally closely watched. At times there are normal heavy gold movements from this country to pay for the grain or cotton crops or other requirements, and at other times there may happen to be a big demand for money, while the fluctuations of exchange near the point at which it is profitable to export gold may cause some anxiety, and the operations in foreign bills which take place on the Royal Exchange will be closely watched. When there is danger to our gold supplies, the Bank is compelled very often to increase its

discount rate, make it effective, and so force up the general interest rates, and thus attract gold from abroad.

We will now turn to an important weekly financial statement which often has a material effect upon the Stock Exchange. This is the "Bank Return," the official statement issued on Thursday, which shows the financial position of the Bank of England. On that day the bank directors meet and fix the official rate at which they will discount bills which are offered with a promise to pay at three months from the date of drawing. This is an important factor in the money market. The directors take into account the demands from abroad, the possibility of receiving gold from abroad, the state of the money market, and other matters. It would very often not do to have a wide difference between the official rate and the actual rate at which the bill-brokers work. When it is necessary to prevent this big difference, the bank often "borrows on Consols," selling the Consols for money down, and buying them back for payment at the monthly Stock Exchange settlement. Thus the market is depleted of surplus cash, and is unwilling to lend or discount so freely, and consequently charges more for so doing. This brings the discount rate nearer the bank's official rate,—or the "bank rate," to use the slang term,—and in the parlance of the City editor, the bank rate becomes more "effective." So the bank controls the market, occasioning some criticism on interference,

and often doing a measure of good, concerning which it is unnecessary to enlarge here.

The Bank Return is a simple statement. We give below the return as issued on the 4th of April 1901:—

Accounts pursuant to the Act 7th and 8th Victoria, cap. 32, for the weeks ended Wednesday, April 3 and 10, 1901.

ISSUE DEPARTMENT

Notes issued . .	£50,061,820	Government debt .	£11,015,000
		Other securities .	6,759,900
		Gold coin and bullion	32,286,920
	£50,061,820		£50,061,820

BANKING DEPARTMENT

Proprietors' capital .	£14,553,000	Government securities	£11,833,968
Rest	3,843,130	Other securities .	34,175,979
Public deposits .	10,299,603	Notes	19,988,005
Other deposits . .	38,943,275	Gold and silver coin .	1,863,483
Seven-days and other bills . . .	222,427		
	£67,861,435		£67,861,435

Dated April 4, 1901.

These figures will be closely scrutinised. What is the "ratio," or the proportion of cash held against liabilities, what is the reserve, how much is circulating in bank notes, what is the stock of coin and bullion?—these are some of the questions. We must work them out from the Bank Return for ourselves. If the reserve is very low indeed, we may feel anxious. For the Bank of England is the institution where the bankers and the Government

keep their balances; it holds the stock of gold upon which we depend as a final resource in a panic. It is not a Government institution, but the Government could not afford to let it fail, for the whole credit of the country would suffer. But on several occasions there has been risk of failure, and help has been secured.

Before considering the figures in detail we must note that there are two departments of the Bank of England. There is the issue department and the banking department. The former is concerned with the issue of bank-notes. The Government owes the Bank of England over eleven millions, and against this the bank may issue eleven millions of notes or paper money. Against securities, which are held for the purpose, the bank issues further rather more than six millions, and may issue still more in the event of a bank that has the right of issuing notes forfeiting its right, in which case the Bank of England can appropriate the privilege up to the amount granted. Every bank-note over and above this sum is issued against gold held by the Bank of England as security. You can take a note to the bank and demand gold for it, and on the other hand you can take gold and demand a note for it. The bank loses by its notes issued against gold held, for the notes have to be printed, and there is the cost of the paper. and on the other hand the gold is not earning interest. But the bank gains on its notes issued against Government debt, and against the amount so

of the interest on the securities held against the five millions or so of notes mentioned above.

The other department of the Bank of England is the banking department, which is much the same in its working as any other bank. Having then cleared the way we can now consider further the Bank Return itself. We have seen what is represented by the items in the figures for the issue department. On one side of the banking statement we see Government Securities, Other Securities, Notes, and Gold and Silver Coin. On the liabilities side are Proprietors' Capital, Rest, Public Deposits, Other Deposits, and Seven-day and Other Bills. Each item requires brief explanation. Taking first the enumeration of the items of the latter side, the Proprietors' Capital, amounting to £14,533,000, speaks for itself. The Bank of England is a proprietory institution just as are most banks nowadays, and the bank is worked in order to earn profits on the capital. The Rest is merely the real Reserve Fund of the Bank of England, fluctuating with the amounts of the profits accruing for dividends. The next item, Public Deposits, means the amount standing to the credit of the Government departments in the books of the bank. It must be remembered that in practice the Bank of England is the banker of the Government as well as of the other banks. The fourth item, Other Deposits, is, as the name implies, the amount standing to the credit of other customers than the Government, including the balances of other banks or municipal and private

customers. The final item on the liabilities side of the Return refers to holdings against short bills issued by the Bank itself, called Bank Post Bills.

On the assets side of this Return we find first the Government Securities—that is the amount that is invested in securities of the British Government, or represented by bills given by the Government in order to raise money for a few days when the Government dividend season comes round, or there are other pressing needs. The item Other Securities represents, of course, all the other leading investments of the bank, whatsoever they may be, and includes the bills of exchange discounted for customers and the bill-brokers, and any other security which the bank holds against loans. When there is a great demand for money, as at the end of the year or quarter, there is usually a big increase in Other Securities; and as this increase represents loans made for use if necessary, it will usually be found that they stand to the credit of customers in the shape of a big increase in Other Deposits. We now come to the items "notes" and "gold and silver coin."

It has already been shown how that every note issued by the Issue Department is represented there by an asset of practically equal value in cash. The "Notes" mentioned in the Banking Department's return are thus equivalent to cash. The gold coin and bullion mentioned in the figures of the Issue Department remain there as security for notes of equivalent value issued. Therefore, so

far as banking business is concerned, the liquid resources may be held to comprise the notes and the gold and silver coin in the Banking Department. These two, added together, are termed the "Reserve," the most important feature in the weekly return. For a glance at these figures and a consideration of them in relation to the liabilities in the shape of deposits will tell us what ratio the bank is holding in the shape of liquid resources against such liabilities. The bank directors consider that 40 per cent is a most satisfactory sum to hold against their liabilities.

This Reserve stands highest in slack times, when the demand for currency for the country and elsewhere is greatest, and money is accordingly dearest. But there are other times when marked currency movements affect the Return, and have decided influence on the money market, and so adversely on the Stock Exchange, for the banks have to be more cautious in advancing loans. Thus at the end of the quarter, and especially at the end of the year, there are big demands on cash resources, in connection with the customary payments of those periods. So, too, in May and November, when the Scotch payments of rent and other charges are so largely made, there is a drain of gold to Scotland of a temporary nature, and the Reserve falls. The bank, of course, recovers the amount a little later. The harvests, too, make a big drain during the time they are in progress, and so do the requirements of the holiday season. Then there are the various

heavy dividend payments, which temporarily dislocate the market, owing to the preparations to meet them, notably at the beginning of January and July. Again, the tax collectors make their presence felt, and the Government sweeps large sums into its account in the first quarter of the year, swelling Public Deposits and the Reserve, but rendering the money market poorer. In times of very active trade and strong demand for money, these fluctuations are of very real importance very often to such institutions as the Stock Exchange, for if bankers are compelled to restrict loans, Stock Exchange business, which is so largely speculative, is checked, and there is a tendency for prices to fall.

CHAPTER VIII

TRUSTEES AND TRUSTEE STOCKS

THE position of trustee is no sinecure. Fortunately for those for whom he is acting, the law has a way of regarding carelessness and incompetence as offences for which he has to pay. The law lays down definite rules for his guidance, and so long as he shapes his course in accordance with those rules, he is safe. It must be remembered that it is not sufficient for a trustee to use the ordinary prudence of a man of business. The rule which has been laid down for his guidance is that his action must be that of the ordinary prudent man of business who realises that he is "making an investment on behalf of other people for whom he felt bound to provide." So that the trustee cannot afford to be a fool, and certainly he cannot afford to be careless. Improper investments may result in the trustee being bound to make good all losses with interest. There need be no excuse for the careless trustee, for definite rules are laid down; in many cases it is possible to obtain the advice of a Judge of the

Supreme Court, as when there is some doubt as to the legality of an investment; and in cases of difficulty where money or securities are concerned, the whole amount can be paid into the High Court, to be there dealt with. However, in all such matters, trustees would, of course, be acting under legal advice.

We may turn, therefore, to the ordinary simple matters affecting a trustee. If there is no statement in the document creating the trust as to what securities are to be available, or what limitations are imposed, he has open to him a list which is defined by law, although here and there may be doubts as to whether a certain stock may come within its provisions. These securities are as follows:—

(1) British Government stocks and Parliamentary stocks.
(2) Real or heritable securities in Great Britain or Ireland.
(3) Bank of England or Bank of Ireland stock.
(4) India Government (sterling) issues.
(5) Securities, the interest of which has British guarantees.
(6) Stock of Metropolitan Board of Works, London County Council, or Debenture stock issued by the receiver of the Metropolitan Police District.
(7) Debentures or rent charge and other prior securities (guaranteed and preference) of Home Railways, providing that for each of ten years past 3 per cent at least has been paid on Ordinary.
(8) Stock of leased railways and canals, providing lease is not for less than 200 years, and is to one of the companies authorised by (7).

(9) Indian railway debentures or capital stock with Indian Government guarantee.

(10) Indian railway "B" annuities and certain others of the East India Railway.

(11) Pre-ordinary stock of Water Companies in Great Britain and Ireland, incorporated by special Act of the Royal Charter, and having paid 5 per cent on the ordinary stock for the last ten years.

(12) Nominal or inscribed stock of any municipal borough with a population of 50,000, or any County Council under the authority of Act of Parliament or Provisional Order.

(13) Water Commissioners' nominal or inscribed stock, where the commissioners have the power of levying rates on a population of 50,000, provided that during the past ten years the rates have not exceeded 80 per cent of the amount authorised by law.

(14) Any of the stocks authorised for the investment of cash under control of the Court.

It must be noted that Scotch trustees have often special powers.

(15) Any Colonial stock registered in the United Kingdom in accordance with the Colonial Stock Acts 1877 and 1892, as amended by the Act of 1900, subject to restrictions in the Trustee Act 1893, § 2, sub-section (2).

In the list of securities available for trustee investments, some are redeemable at "par" within a certain period. Where this is the case trustees have to be very careful. The guiding rule is that trustees may not invest where a stock will be redeemed within fifteen years if it should stand at above "par," and may not purchase any redeem-

able stock which stands at a price which exceeds 15 per cent above "par." This applies especially to the sections (7), (9), (11), and (12) above. Perhaps a few words on each of the groups mentioned as available for trustees may be useful. In the list of Government securities available we include Consols, the War Loan, the 3 per cent Local Loans stock, Exchequer bonds, and the like. The limitations which the trustée has to observe are, that in the case of Consols the stock will in 1903 only yield 2½ per cent at "par." Consols are an exception, however, to the rule that trustees may not invest in any security forbidden in the trust-deed. As regards redeemable stocks of all kinds, the trustee must continually bear in mind the two rules, not to purchase at a premium if redeemable within fifteen years at a fixed price, or about 15 per cent premium on the fixed price where redeemable after that date.

By real and heritable securities we understand not the purchase of land, but mortgages thereon, and this land must be either freehold or copyhold, or leaseholds of not less than 200 years or at a greater rent than one shilling, or a mortgage on house property, the amount advanced in any case being not more than two-thirds of the ascertained value. In cases of this sort the trustee will, of course, be advised by a lawyer and a competent surveyor. It must be noted that trustees are not permitted to advance on a second mortgage. Our remarks, too, only apply to England, and as

regards Scotland and Ireland special advice is necessary.

The third section in our list requires little explanation. In looking at the fourth section it is necessary to note that Rupee Paper is out of the question, as not being of the sterling issues, which alone are permitted; although now that exchange is fixed it is difficult to see what good reason there can be against it. Sections five and six present no difficulty. With regard to the next section, trustees must carefully note the requirements as to the 3 per cent distribution. Where a line has failed to satisfy this, it may happen that it is authorised under the rule of Court, but that is variable. The next section must be carefully noted, for there is often insufficient information on the subject of leased lines, and inquiry is often necessary in order to discover whether the conditions are complied with. It must be noted too that the company to which they are leased must have paid the 3 per cent dividend on its ordinary stock for the ten years demanded under the last section. As regards section nine it is to be noted that the Great India Peninsula, one of the three great railways, has been purchased by the Government. The Government can acquire the Bombay and Baroda in 1905, and the Madras in 1907. These railways' securities are eligible, and any others, where the redemption does not depend on "fixed prices." Had the Government agreement been to buy out the Great India Peninsula at 100, trustees would, of course, have

been unable to give more than 115 for the stock. In some cases, as, for instance, in respect of certain debentures, we find Indian railways occasionally ineligible owing to the redemption conditions mentioned earlier in this chapter. In the tenth section we have mentioned any annuities created by the Secretary of State for India to purchase a railway, such annuities being chargeable on the Government of India, and authorised for trustees by Parliament. Such an annuity is the new Great India Peninsula "B," the "A" annuity being ineligible, since no provision is made for a sinking fund to secure the capital at the expiry of the term. Section twelve opens up a wide and popular field for investment. It is necessary not only to note the 50,000 population condition, but to be quite sure that the stock is not liable to redemption in less than fifteen years, when it can only be purchased at "par" or below, and is not standing at more than 15 per cent premium. Section thirteen does not open up more than a very limited investment field, what is scarcely worth considering except as permanent holdings.

The last section but one authorises what are known as Chancery stocks, but the authorisation is only so far as trust funds under the control of the Court are concerned, or where a direct order is made.

From time to time the names of securities authorised by the last section are published in the *London Gazette.* So far, the securities authorised

are those of the Canadian, Victorian, and New Zealand Governments.

Much is necessarily left to the discretion of trustees, even so far as the above securities are concerned, and foolish action might result in awkward circumstances. Thus the South-Eastern Railway Company in 1900 only paid 3 per cent with difficulty on the ordinary stock. If traffics showed a heavy falling off in 1901, there might be the awkward discovery later by a trustee who bought preference stock that the stock was no longer authorised through the failure of the company to maintain its ordinary dividend. Such has already happened with the Great Central and some other companies. It is necessary to point out too that trustees must not confuse a preferred ordinary (a stock obtained by splitting the ordinary) with a preference security. Power is given to vary securities as the trustees wish within the limits laid down, but if the investment clause of the trust-deed names other stocks as available for investment, it is very necessary to add an authority to vary so far as the securities therein named are concerned. Further, trustees must not invest in "bearer" securities.

Sometimes it happens that a trustee finds his power limited by the will or deed which creates the trust, and sometimes he will find that the document authorises him to go outside the trustee area mentioned above and buy certain specified securities. The law respects the testator's wishes

in these respects. He may fear Home Rule for Ireland, and prohibit investment in Bank of Ireland stock; he may think that we shall lose India some day, and refuse powers to buy any Indian security —in any case the law will respect his wish. Similarly, if he should expressly state that Argentine Government issues may be bought, the trustee may buy them, and the law will not ordinarily hold him liable. Thus it is necessary to examine carefully the investment clause in the will or deed which creates the trust, and even though he may have wide powers given to him, as just mentioned, he will have to apply to the consideration of such powers the maxim laid down for his guidance by the Court that he must show more than the ordinary prudence of the man of business. Having obtained a clear idea of his powers, the trustee should be very punctilious in dealing with the affairs entrusted to him, being very careful to keep accurate accounts, to take care that moneys are not left for long unemployed, to see that he thoroughly understands and approves any action which co-trustees may be taking, and on no account to leave the business matters in the hands of one of them without full knowledge of the steps that are being taken. He should be careful that the terms of the trust are not exceeded, whatever the temptation. As regards the actual financial transactions, such as the receipt of dividends and the like, it is well to leave the matter with bankers, with whom all bonds and

stock and share certificates should be lodged. It frequently happens that trustees and executors, who for certain purposes may find themselves in the position of trustees, are enabled by certain terms in the will or deed, as the case may be, to use their discretion as to the time at which they shall sell certain securities which are ordered to be sold. As in other respects, such permission is not absolute, and the Courts will wish to know that there was good reason—such, for instance, as the advice of a stockbroker of repute—that certain stocks were very likely to rise in value, before necessarily excusing a trustee if things go wrong.

There is, of course, sometimes a serious depreciation in the value of securities of a trust. The trustee is in such cases not responsible, so long as he has acted in a careful and prudent manner. This consideration is of special service in respect to investments in or mortgages on land, if they are allowed by the terms of the trust, and the proper precautions as laid down in respect to valuation and the amount, not exceeding two-thirds value, recognised as proper to be advanced on mortgage. As regards investments in stock and shares, if an investment is a proper one at the time it was made, the trustee will be held free from blame, even though its value depreciated considerably. Were this not the case, and the trustee went outside his proper sphere to invest, the security would be sold by order of the Court, and the erring trustee would have to make good the

difference. But, unless there has been fraud, the Statute of Limitations operates to excuse trustees for innocent offences, such as mere negligence or carelessness, after a certain period of time has elapsed.

Nobody need accept a position as trustee, and having accepted there is usually little difficulty in retiring from the trust, although a retiring trustee should be careful that his successor is appointed and ready to act. If a trustee should absent himself out of the kingdom for one year, that is sufficient ground for appointing a new one, and if a trustee is regarded by the Courts for any reason as unfit to act, the Courts will remove him.

As regards breach of trust, sometimes a trustee may yield to pressure on the part of those for whom he is acting. Usually speaking, it is not well to agree to suggestions to invest outside the trustee area, for reasons already stated. Where, however, there is a disposition to do so, it should only be with the written consent and request of the beneficiary, as then the beneficiary's interest may be held liable to be a source of recompense to the trustee who has so acted, and who is, of course, primarily responsible to make up loss. Innocent breaches of trust, and even negligence, do not give rise to an action after the lapse of six years; but if there is any question of fraud, or property is retained by trustees, the Statute of Limitations cannot bar the right of action. It is

necessary to bear in mind that the trustee can make nothing in the way of profit out of his trust, and where financial transactions are concerned it is absolutely necessary that any action taken should be with the consent of all the other trustees. We must note, of course, that a trustee is entitled to his expenses incurred in connection with the trust.

CHAPTER IX

HOW TO READ A PROSPECTUS

THERE are different ways of regarding the same question. The average company promoter thinks the public fair game. "If I offer a man my watch and tell him it is worth £1000, and he chooses to give me that sum when it is only worth £50, he deserves to lose," he argues. "So if I offer him a company, and he takes my word in the matter of its value, and loses his money in consequence, it is his own fault." Fortunately, the law does not look at matters altogether that way. It says that thieves should be convicted and locked up, and that swindling company promoters may be subjected to penalties. But the law is not very severe, not nearly so severe as it should be. The investor has to use his own wits if he would safeguard himself.

The law says, however, that a prospectus must tell the investor certain things, and these things and the exercise of a little common sense may save that investor much money, if he would duly regard

them. In every prospectus we have a certain sum mentioned as the purchase price of the property. Unfortunately, the public are not told what is the price at which it was acquired, unless part of that price was to be in shares. Now, in a fair and square deal there is perhaps good reason why many details need not be told. For one thing, a tradesman buying a business from another can examine the books, ascertain facts for himself, employ professional valuers, and so on. The ordinary investor who relies on a prospectus does none of these things. The promoters employ the accountant, tell very much what they please, and choose their own valuer. So that in place of the inevitable "higgle" of a private deal, we have blind trust in the vendor's representatives in the case of a buyer of shares in a public company. Surely, from a business point of view, caution is necessary.

The purchase price should be justified by a detailed statement of assets. Nowadays, we have to be told in a prospectus how much is charged for "goodwill." This is an innovation of the new Companies Act. Goodwill is of different value in different companies, and it is not easy to lay down a rule as to the amount to be charged. Certainly no more years' purchase of profits should be charged for goodwill in the case of a public company than should be charged for a private business of equal standing in the same branch of trade. The remainder of the assets should be closely examined with a view to arriving at some idea of their value.

Where assets are bulked together so that this is difficult, as where "stock-in-trade, machinery, fixtures, and plant" are lumped together, the investor may well be cautious. The amount of the loans outstanding and the book debts should be guaranteed by the vendors. The value of the leasehold and the freehold properties should be stated, and stated separately. There is a certainty that these will be valued at their full figure by the valuers employed, and in the case of a private deal, the buyer might obtain a very considerable reduction. It is well, therefore, to make a fair allowance for the promoter's view of the value of assets. Very great caution is required in dealing with companies where patents form a portion of the assets. In nineteen cases out of twenty patents are grossly overvalued. In any case there is risk that they may be upset.

It is usually a bad sign when the vendors are asking for their purchase consideration entirely in cash. The Stock Exchange demands that two-thirds of the amount of shares offered shall be issued to the public before it will grant an official quotation. The vendors should usually be content to take the remaining one-third of the purchase consideration in shares. If this is done, and the assets, together with a moderate charge for goodwill, are fully equal to the purchase consideration, we have a fair beginning. It is well, too, to note whether the owners of the business are staying in it or relinquishing control. In no circumstances

should an industrial undertaking be supported where the assets are not valued, and the items stated clearly. Having got so far, the intending investor should study the profit statement, when the company has been trading already. If the profits are concealed, depend upon it that there is something wrong. When it is stated, for instance, that the profits—they should, of course, be stated as *net* profits—over a term of years have *averaged* so-and-so, the investor may well be suspicious. Let us examine the case of three companies A, B, and C. Below we see their *net* profits for the past five years :—

	A.	B.	C.
1896	£5,000	£7,000	£12,000
1897	5,200	1,000	9,000
1898	5,100	10,000	4,000
1899	5,200	2,000	1,000
1900	5,500	6,000	nil.
Total	£26,000	£26,000	£26,000

Now in each of these cases we have *average* net profits of £5200 per annum. In the case of A we have a steady business, and the promoters would certainly state the profits for each year separately. In the case of B we have a fluctuating business, and in one year the dividend may be good, in another bad. In the third case we have a declining business. It is quite certain that the promoters of C will "average" their profits, and possibly those of B will also be averaged. It may be that the rise

to £6000 net profits in the case of B in 1900 was owing to the partners spending less on repairs and renewals. Yet it would be easy to say, in the case of B, that the net profits averaged £5200 a year for five years, and that those of 1900 were above the average. As a rule, when profits are not stated fully there is a very good reason—from the promoter's point of view.

In examining the profit statement it is necessary to note carefully whether provision is certified as having been made for depreciation of property, repairs, and renewals, interest on loans, and income tax. The investor should also work out carefully whether, over and above what he agrees is a fair dividend on the issued capital, there is sufficient to set aside something for a reserve fund after providing for director's fees and office expenses. It is an advantage when it is provided that so much a year, after the payment of preference dividends, should be set aside regularly to reserve, and a portion or the whole of the reserve fund shall be invested outside the business. He should note whether it is provided that no debentures shall be issued without the consent of the preference shareholders. In the case of an applicant for debentures, he should assure himself that the debentures are secured sufficiently as a mortgage, that the assets show very considerably more than enough to meet the issue, and that they are assigned as debenture security. In the case of preference shares, he should carefully note whether his dividends are "cumulative"—that

is, whether in case of being defaulted upon one year they have to be made up in following years before the ordinary shareholder receives anything, and he should carefully note whether the shares are preferential as regards capital—that is, whether in the event of liquidation, the preference shareholders must be paid off out of the assets before anything goes to the ordinary shareholders. It is also very necessary to note what are the voting powers of the different classes of shareholders. These will be mentioned in the Articles of Association. It may be that the preference shareholder has no voting power at all, and it would be extremely inconvenient if he found his company suddenly liquidated and his shares paid off at £1 apiece, the par value when they stood, let us say, in the market at 1¼.

If a professional promoter is employed to float the company, it is necessary to state what he is receiving, and the item should be scrutinised closely. Another item that should be noted is the amount to be paid as underwriting commission. This commission is paid for guaranteeing subscriptions to a certain number of shares, and naturally, as the risk varies in different classes of companies, and as some are more attractive to investors than others, so the amount of the commission to be paid will vary considerably. Underwriting commissions on fair industrial ventures should not amount to more than 5 per cent in cash, and 5 per cent in shares. Very often "underwriters" are men of straw, quite unable

to pay for their shares if the public do not take them. This is apparently one of the risks which investors run of which the law approves.

A material point for consideration is the question of the minimum number of shares upon which the directors will go to allotment. This should be carefully noted, for if the amount be placed at a very low figure, the company may be wrecked at its inception through want of working capital. It should be noted, however, that the "minimum subscription" required does not apply to debentures. When we have to consider the amount upon which the company is relying as working capital, we have also to take into consideration this question of *minimum* subscription. Suppose that a prospectus states that the price to be paid to the vendors is £100,000, of which £30,000 must be in cash, and the balance may be either cash or shares at the option of the directors. The total shares offered are put at £150,000, and the prospectus states that the minimum for allotment will be subscription to shares of the par value of £50,000. Here £30,000 *must* go to the vendors, and the company *may* have £20,000 left. On the other hand, the directors may be creatures of the vendors and may allot practically all the £20,000 to them, giving the remainder of the purchase consideration in shares. The company thus starts without a penny of working capital. The investor should certainly make sure that there is a fair margin between the amount

which the vendors may receive in cash and the minimum subscription, and this latter must, of course, be the greater. Where no minimum subscription is stated the law requires that *all* the shares must be allotted. It should be noted that for the purpose of the minimum subscription shares that have been underwritten are included as subscribed shares, but that shares issued to vendors in payment, for no cash consideration, are not so included.

All material contracts have to be disclosed. By this we mean that such contracts as might be held to influence the mind of an ordinary applicant one way or the other, if he knew the details when applying for shares, must be mentioned. It is very often advisable, when it is possible that anything is wrong, to examine the nature of these contracts. They must be offered for inspection if required, and it is advisable to call at the company's offices in order to inspect them.

The front page of a prospectus is often an example of the promoter's skill. Good names are secured, and the investor is sometimes attracted by them. Now it is quite possible that even a duke may be worthless on the board of a cycle company, or a retired general be singularly ignorant of the requirements of a mining concern. The names on the front page of a prospectus are well worth scrutinising, but too often the public have no means of judging of their value. The retired army officer or penniless peer often ekes out an income by

accepting seats on boards of public companies, or, to use the accepted City phrase, by becoming a "guinea-pig." There are many worthless directors of this kind, and usually the history of their companies is bad. A glance at the *Directory of Directors* for a few years back will locate a man's companies, and if a reference to the Stock Exchange Official Intelligence or the Year-Book shows that the history of the majority of these is unsatisfactory, the new concern may generally wisely be avoided. The "guinea-pig" is far too much in evidence, and although it may be advantageous to him that his name appears on many directorates, such divided attentions are in themselves a hint that caution is necessary on the part of the investor. It is not too much to say that no man who knew anything of public companies would subscribe to a new venture if certain names well known in the company world appeared on their directorates, and the same applies to the solicitors, auditors, and even brokers. As a rule a good man is careful of his reputation, and his name is rarely or never connected with failures.

When a prospectus is "florid," its proper place is usually the waste-paper basket. When there is much discussion of the great advantages offered, much parade of possibilities, stress on the success of other ventures in the same field, and quotations of their shares and dividend; when liberal use is made of red ink, and striking remarks in bold type as to "an attractive investment" and the like, are

indulged in, it is time for the investor to take heed. One or two well-known promoters are adepts at "gulling" the public in this fashion, without resorting to actual illegal misrepresentation. Striking pictorial supplements sometimes accompany their effusions. When we have florid prospectuses of this nature they have usually some of the bad features we have already noticed, such as the averaging of profits, and so on. Depend upon it that, as a rule, a prospectus of a sound business will itself be sound and business-like. Any attempt at concealment is an evidence that a prospectus may be regarded with suspicion. A prospectus of a sound concern should be so framed, and is so framed, that the investor may easily discover what he has a right to know, and there is none of the Cheap Jack rhodomontade about it. Unfortunately, the business of company promoter is not one that is in good odour, for there are too many black sheep in it, and so long as this is the case there is every necessity to be very cautious. Perhaps some day our laws will be so framed that company promotion will have its due as a legitimate and useful enterprise, so regulated by law as to be as well conducted as any other trade.

There is one class of promotion which deserves special consideration. It was becoming a decided danger to the public, but has probably been checked to a considerable extent by the provisions of the new Companies Act. Reference is made to the movement in favour of great combinations in

industry. Just as the individual trader has been giving way to the joint-stock company, so is the latter in many cases to the combination of firms, especially in the manufacturing area. The notion is that money is saved in the methods of distribution and the acquisition of raw produce, that there is more economical working generally, and that a big combination is better able to regulate prices and deal with labour disputes. For the sake of peace the promoters do not lay much stress on the two last-named points. All we need note here is that, as a rule, this class of company is very heavily burdened with capital. In order to secure anything like a control in a trade, and so make a "combine" worth supporting, fancy prices had frequently to be paid to all firms of standing. It is early yet to say how far the "combination" movement may prove successful from an economic point of view. But the new Companies Act has probably checked the promotion movement, owing to the necessity to show profits where any portion of the purchase consideration is paid in cash. Ordinarily speaking, however, the investor has to consider the points already noted, and unless he is able to discover that the concern really possesses a virtual control in the industry, or there are sound working arrangements with other big firms or combinations, it is well to be more than ordinarily cautious. There is usually no clear indication of profits or assets in these concerns, and in spite of specious prospectuses the investor is only too often in the dark.

CHAPTER X

HINTS TO THE SMALL INVESTOR

Be cautious, do not be greedy, and do not go to sleep, are three pieces of advice that may be given to the small investor. We have seen already why it is necessary to be careful as to the broker with whom we deal. For safety's sake a member of the Stock Exchange is to be preferred to an "outside broker," who is too often a rogue or a sharp practitioner. If the small investor does not know a broker with whom to do business, he can obtain an introduction to one without much difficulty. For instance, he can always discover the names of members of the London Stock Exchange by writing to the Secretary of that institution. If he selected a small firm at random, gave a banker's reference, and paid a moderate sum on account, there should not be much difficulty in getting a broker to deal for him. In fact, were he willing to pay such a sum down as to leave the broker safe, it is unlikely that many people would refuse to deal for the next account, even though the banker's reference was wanting.

After all, the stockbroker is a trader, anxious to do business, and all he wants is to be protected from the designing rogue, who is perhaps speculating on the chance of making a profit, and who will disappear if there are losses to face.

The small investor, having but little capital to lose, cannot afford to run risks. Ordinarily speaking, we cannot hope to obtain more than 3½ per cent without running some risk. Unless wisdom is shown, we may, however, lose heavily even on the very best security. A man who bought Consols in time of very slack trade might, as we saw in the first two chapters, give so much for them that when brisk trade and consequent dear money were seen, there would be losses of capital to face. We have to consider times, seasons, and circumstances. Providing we do that, we may say perhaps that, roughly speaking, we can secure up to 4 per cent without any cause for real anxiety, by making careful selection. Much above that, we are among risky securities, even though they may not be dangerous. South American countries have their stocks standing at figures that show a high yield. But the circumstances may render them dear even them. We have to discriminate. The wealthy investor may throw in a few Argentines or Chilians, may with more confidence buy a few Chinese bonds, may spice his assortment with some Imperial Bank of Persia shares, add a few De Beers, a most excellent share as mining shares go, and try his luck with some American brewery prior

securities. He can afford to take the risks, and can raise the level of yield in that way. Even the wealthy investor, if he be wise, will not keep all his eggs in one basket. If he is bent on mixing a few high-yielding stocks and shares with his sound securities, he will spread the risks over several classes, and will in that way avoid much disaster. The small investor, however, may not be able to afford to risk any money. But even for him, and when buying good investment stocks, he should remember that it is usually advisable to spread his money over several securities rather than put all in one. Be cautious. Err on the side of caution rather than the reverse; remember that your broker may not be infallible, may even be an enthusiast or a bit of a speculator himself; and, in the light of recent experiences or not, do not leave money in the hands of either your broker or solicitor for long. The proper place for unemployed capital is on the deposit side of our banking account. The last of our three maxims was "Do not go to sleep." Remember that even your Consols may, in time of slack trade, rise to a level that will justify selling and placing what you can get on deposit, if you are a small investor. Do not neglect your stock market article. The writer may be a poor creature, and deserve your pity rather than your confidence, but at least he is a kind of channel of communication between the Stock Exchange and yourself; he will tell you what is happening, and if his opinions are not worth listening to, there are at least his facts.

You may see that the Chancellor of the Exchequer is going to allow Colonial stocks to become trustee stocks under certain conditions. Inquiry will show you, or it might have done, that Canadian securities were bound to be included early. If you find them standing at a level giving a decidedly better return than most gilt-edged stocks of their class, why not buy them? They will go to much the same level as the other trustee stocks. Do not go to sleep—keep your eyes open. It is the only way to make money, or to keep it when you have it.

The small investor, who is perchance a married man with anxious thought for the welfare of his family, may be continually troubled for the future. What is the best way to save so as to provide the largest amount of capital for himself in his old age, or for his wife and children should he die early? Probably the best thing he can do is to save by means of an "endowment policy." Go to a first-class life assurance office, which gives good terms—and remember that the giant offices, advertising largely, and always touting through the post or by means of advertisement, are often very far from the best offices—and take out an endowment policy. By this we mean a policy the capital sum of which, together with bonuses—do not, as a rule, take out a non-profit policy—will be returned at the end of a given number of years, say five-and-twenty, or before in case of death. At very little sacrifice of interest there is all the advantage of a life assurance policy with the gradual building up of

capital, and after a few years the surrender value of these policies is substantial in case misfortune compels the person assured to forego payments.

When it comes to a question of using capital rather than saving, we have a wide field of choice. If the investor have himself to consider he can, of course, obtain the best results by means of annuities, and a sound life assurance office will offer him a higher return than the Post-Office annuities, while the security is undoubted. Spreading over the capital among one or two leading life offices would be the most advisable course. The capital, however, is sacrificed, and most people prefer, even for sentimental reasons it may be, not to part with their capital, although, if they have only themselves to consider, the sentiment may be a foolish one if the capital available is small. Then there is the question of ground-rents. The property standing on the ground has to be carefully considered, and the proportion of ground-rent to the rent of the house is a matter to notice carefully, as well as the condition of the property, and the length of the lease. Ordinarily speaking, without taking into consideration the length of a lease—and of course if the lease is short the ground-rent is more valuable—about 4 per cent ought to be secured on good ground-rents in a good letting district, by visiting various auctions with a view to purchase. The rent of the property usually works out at about six times the annual value of the ground-rent. As regards house property, there will always be much

division of opinion as to its value for the small investor. With old property, for instance, there is frequently a heavy bill for repairs. But advice on the point is rather out of the scope of this book. Mortgages, again, provided they are well secured on thoroughly good letting property in a busy or popular neighbourhood, and provided that they are well within the two-thirds limit of the actual value of the property, may be a good form of investment. The rate of interest will vary much with the value of money. Thus, in busy times, it may be easy to obtain 4½ to 5 per cent, and in slack times impossible to do so. It is absolutely necessary with mortgages to have a clause preventing the mortgage being paid off within a short period, otherwise it may prove an unprofitable method of saving. We may now come back to our proper province, stocks and shares. As a rough guide we may repeat that after a year or two of brisk trade, the best investments are those of the very highest class. When trade is slack, and traffic returns of the home railways are beginning to improve again, probably the investor will do best with home railway securities, the ordinary stocks of the great trunk lines of the country, such as North-Westerns, North-Easterns, Great Westerns, and the like. He may even select the debenture securities or other prior issues of the very best great industrial companies in the iron and coal and textile trades.

Another good rule in the investment of income is to ignore market feeling. Occasionally, for

instance, at the close of the year, there is such difficulty in obtaining monetary accommodation that the stock markets become almost alarmed at the "money squeeze." Gilt-edged securities fall, and then is the time for the investor to buy. "Never be in a hurry, and never be frightened merely because other people are afraid," should be the investor's policy. Maybe there is a political scare, and prices of all securities will fall severely. The investor after carefully considering the position may well choose such times to pick up the soundest securities. On the other hand, when the markets are excited and prices rising, the steady-going investor is best out of it. Let other people have the gambling profits, and exercise patience and look elsewhere.

In buying securities which are standing over "par," investors must always consider whether they are redeemable at "par" within the next few years, or are likely to be redeemed by annual drawings. It is the capital value of the security that has always to be borne in mind. The yield may be satisfactory enough, even though small, but it is decidedly hard on a family when the head of it dies and it is discovered that necessary realisations have to be made at prices that involve a loss. It is impossible, of course, to prevent fluctuations in prices, but the ordinary laws that govern some of them should be noted. For the rest, it is well to provide some kind of a sinking fund. Thus we buy a security let us say at 105 in the full belief

that not only is the interest secure, but that the price will not fall much lower. However, it cannot hurt us if we arrange, where possible, to set aside $\frac{1}{4}$ per cent out of the interest for a term of years as savings, in order to provide say £5 against possible fluctuations. If prices do not fall it is, of course, a mere saving that has increased our capital. If they do, our saving may prevent our heirs from losing any portion of the invested capital sum. Investments in Consols a few years ago at £114, let us say, would be very unsatisfactory for heirs if they had to be realised to-day.

We have seen what we may consider the utmost that may be secured by way of interest with absolute safety in stocks and shares. It depends very much, of course, on circumstances. When trade is brisk and money is consequently dear, a higher return can be secured than when money is cheap, and everybody wants a field for investment. We have already pointed out the main rules which should guide the small investor. Should he speculate? it may be asked. Well, if by speculation is meant gambling, the small investor would be very ill advised to speculate. Whatever he may think of friendly "tips" in newspapers or elsewhere, he will not receive them until the tipsters have an object in passing them on, and that object is usually to sell. In nine cases out of ten, a busy and observant stockbroker will tell you, the speculator loses his money in the end. But if by speculation we mean observance of ordinary

rules and trade laws such as we have already indicated, then the small investor has every right to speculate. He is merely trading, buying sound securities in a cheap market, and selling them in a dear one. That is surely legitimate trading in stocks and shares? The writer was once told by the editor of a leading City journal that the most popular article that ever appeared in its pages was a "potboiler" on the enormous profits that had been made in the great Kaffir "boom." For want of another subject at the moment, the big rise in values was treated, and it was shown what a speculator *might* have made. Letters of congratulation poured into the office from eager gamblers. They, poor fools, were arguing that because such profits had been made once they might easily be made again. "Jobbing backwards," as it is called, is so fatally easy and seductive. It is by trading on the gambling instinct of adventurous investors that company promoters make so much. They print in red ink on their prospectuses the present prices of shares in prosperous undertakings of the same class, and the public sweep up the shares of an egregious swindle, hoping to do likewise. That is gambling and nothing else—it is not legitimate speculation. Always keep an eye to merits, and not much money will be lost.

In mere speculation, with no intention of paying for securities outright or delivering them, moderate profits should always satisfy an operator. Never speculate without sound reason, or on mere casual

"tips," and always operate in a "free market"—that is, where there are many dealers, and it is easy to buy and sell at most times. In limited markets, where there are only one or two dealers, the speculator or investor is often at the mercy of a group of unscrupulous financial adventurers, and when a collapse comes shares are practically unsaleable. In such markets, where there is often no carrying-over and no real speculation, it is easy enough to buy, but difficult to sell. Many of the "tips" in outside brokers' circulars refer to shares of this class, and they are excessively dangerous. When movements have gone against a speculator, if he should feel sure of his sound it is well to "average." Then, if he have bought Gold Reefs at 5 for a rise and they have fallen to 4½, by buying an equal amount at that figure, he averages the whole at 4¾, and anything above that figure is a profit. However, by far the best method of speculation, pure and simple, is "option" business, and it will well repay the little study that is required to master its peculiarities. There are two things the speculating public do not like to do—to sell a "bear," or to deal in options. They are wrong in both, and as regards options, the limit of the risk is known, provided, of course, that the sale or purchase of the shares does not unduly precede the option. It is far better than the outside broker's favourite "cover" system.

CHAPTER XI

HOW TO DEAL IN MINES

THERE are many ways of indulging in the purchase of mining shares. Many people follow blindly the advice of more or less irresponsible persons. "Buy a few Gold Dusts, my boy," says a friend in the train. "I've got 'em myself. Safe to go to 10." They are bought, and perhaps there is a profit in a day or two, and the friend gains a dangerous notoriety as a mining tipster. One may blame financial writers for irresponsible gossip, but until one has had experience of the mining speculator, the depths of the public greed are unknown. Speculators seem to lose their heads completely when a gold mine is in question. One of the shrewdest of men in the City took the writer aside one day in 1895 to prove how excellent the basis for the '95 boom was. "You see, most rises are like building up a column," he said. "The market is all in one narrow place. This rise is broad in the base, all the bourses are in it. It is like building up a pyramid. Now it is easy to knock over

a column, but it is impossible to knock a pyramid over, isn't it?" It sounds ridiculous enough to-day, and at any other moment the financier would have admitted the absurdity. He was carried away by the mania of the moment. Never so much as when dealing with mines do the public cut quite such an absurd figure. There are always any number who have an idea that the average City editor sees Mr. Beit or Lord Rothschild or some other financier making his little arrangements for a rise. "Will Chartered go to 12½ by Christmas?" asks one quite solemnly. "Which will be the higher at this time next year—Goldfields or Kalgurlis?" queries another. Bless their innocent hearts. If that City editor knew, he would be a millionaire ere long without the trouble of City editing. The odd thing is, that so many presumably sane business men are found putting the questions. The old ladies and—dare it be said?—the country parsons, one can forgive—and caution.

Mining shares offer decided attractions to the greedy gambler, who usually loses his money in them, and many of them offer decided attractions at times to the investor who is prepared to take a speculative risk in return for a high yield. We shall consider in their proper place the various mining markets. We may turn here to the general consideration of mining shares as an object of speculative investment, and discuss the necessities for caution in supporting new mining ventures.

There is an old wheeze which gives the three

degrees of a liar as—a liar, a liar with a preliminary adjective, and a mining expert. It is rather rough perhaps on the mining experts, for among them are many men of sterling integrity, great scientific knowledge, and practical skill. On the other hand, the mining fields contain many of the wastrels of the earth, who are content to write eulogistic reports of any worthless property to order. There is every necessity for caution when examining these expert reports of mining properties, every necessity to consider what is the financial backing of a property—in many cases mines are "controlled" by well-known financial houses—strong reason for examining the directorates of the companies, with a view to unearthing "guinea-pigs," or professional directors, who will go on the board of the most worthless concern for the sake of a hundred or so a year. Probably there is more roguery in gold-mining than in any branch of industry, but on the other hand, careful inquiry and a wise choice may result in many profitable investments in concerns that are skilfully and honestly handled. Undoubtedly the great difficulty in the past has been to obtain adequate information as to what is going on at the mine. Some companies, notably the Indian mines, publish frequent periodical returns giving the extent of the new developments in the mines, the value of the ore opened up, and so on. This should be far more general than it is among mining companies. Too often the shareholder has to risk concealment and sharp practice on the part

of directorates at home, and dishonesty and concealment on the part of mine managers on the fields.

The experience of the past few years has undoubtedly taught the public the possible worthlessness of so-called finance companies. They too often exist merely to make profits out of over-capitalised undertakings. They own perhaps certain properties, bought cheaply, and resold to the public at a high price. The big profits are necessary owing to the enormous capitalisation of these finance companies. Thanks to extravagant eulogies in the press and on the Stock Exchange, success rewards their efforts for a time. But they become discredited as their subsidiaries one after another fail, or are reconstructed, or amalgamated with other worthless concerns. The big profits disappear, and the share quotations fall, and presently the finance company has to be wound up. There are, of course, important exceptions, but as a rule these companies are not very satisfactory.

Very often shares in mining companies are put on the market without any prospectus at all. Dealings are started, and thanks to paragraphs in the press, which are not above suspicion, the public buy them. People seem ever ready to gamble in mines, and so far, of course, they deserve to lose their money. Everybody is willing to hear a mining "tip." It is idle to pretend that the recipient worries about merits, or as to whether there is any gold in a so-called gold mine. It is

often enough that a friend tells him that it is a "good thing" for a rise in value. Very little sympathy need be felt with speculators of this kind when they lose their money. They take a gambling risk, hoping to make money at somebody else's expense before the crash comes, and if they are caught themselves, it is surely part of the game?

But there is a large class of mining investors or speculators who buy for sound reasons, such as the merits of the mine, or even speculators who will sell short because they believe that a mine is deteriorating and they think there is a chance of buying back at a lower price. Here we have legitimate speculative risks, such as are met with every day in trade. Unfortunately, the mining market is treated to far worse exhibitions of speculative skill. The flotation of worthless concerns in the mining company world is alarming. Their capitalisation is often placed at an absurdly high figure, and working capital is often too small for the company to be successful. But groups may be formed to engineer a rise in the market-price, and often dealings are commenced, by stock-jobbers who are interested, at fancy prices, while "puffs" in the newspapers draw the attention of the public to the concern. It does not necessarily mean that a mine is worth anything because it is referred to eulogistically in the newspapers, or because its shares appear in the list of prices, possibly at a high figure. That is often a matter

of payment in one form or another. Nor need we attach much importance very often to reports from the property, or the erection of machinery, or assay values. Even if there is rich ore in the mine it may be worked out and high dividends secured, while the shares are being forced up and sold to the public at big prices. The dangers of mining speculation are very many, and it behoves the public to be very cautious and inquire above all as to the *reputation* of those who control the company. On that, in the long run, nearly everything depends.

When subscribing to a new mining venture find out something about it. At the least, your broker will be able to discover the reputation of the concern and its promoters if he inquire in the market. Be far more cautious than when buying a horse, although even that is no joke. Mere prospectus statements or newspaper paragraphs should count for little. In the case of a new venture, it is not unprofitable, as we have said, to examine the company records of the directors. If a man has been a director of several unsuccessful mining ventures, depend upon it that the odds are that his next will also be unsuccessful. The buyer should discover, if possible, who are the promoting people and what is their reputation. He should see that, where any considerable development work has to be done, at least £40,000 or £50,000 of working capital is to be provided. Indeed, Mr. Hamilton Smith, the great mining engineer, once declared

that in order to develop a "deep level" property on the Rand, where the reef lies perhaps 3000 feet deep, it is necessary to expend £600,000 before seeing results! He should remember that machinery will cost an additional large sum. He should note who is the mine manager, and see if he has been connected with a successful undertaking before assuming the present post. If he is a clever man, with a good record, depend upon it the facts will be made something of. Such a man has a reputation to lose, and thinks his reputation worth paying for, and will probably take care that he is not used as a tool by dishonest directors or financial groups. If he is an unknown man, working for a small salary, or is a man of bad repute, the investor is far better out of the company than in it. In a general way, it is more profitable to buy shares at substantial prices in a well-proved property managed by a man of repute than to dabble in the more unknown or insignificant ventures. For every pound made in one of the latter there are many pounds lost in the remainder. When an unknown "stockbroker" writes recommending a mining share, or issues a circular full of recommendations, the chances are great that an attempt is being made to swindle the public. We can attach the same importance to such letters and circulars as to the specious promises of prospectuses of ventures not brought out under good auspices—they are probably untrue.

We may now consider dealings in established or

promising mines, which will certainly be standing at somewhat substantial prices. These are the best for the public to buy. Better far, as a rule, have a few good £1 shares at some pounds apiece, than a few hundreds at half a crown. Naturally all mining investment is decidedly speculative, and it behoves the investor to be cautious. When markets are excited and prices rising rapidly, the public are usually attracted and begin to gamble, buying things about which they know little or nothing. But even when gambling, there is no excuse for taking undue risks and buying shares which must be absolutely worthless when the market breaks, as it must do sooner or later. The wise investor buys, of course, when markets are weak and dispirited, and prices consequently low. He buys on what he believes to be merits, and because the price of the shares seems unduly low. He is selling when the crowd are buying and dealers shouting themselves hoarse on the Stock Exchange. In that he is merely acting as the great mining financial houses are acting, unloading shares upon a gullible and greedy public.

In buying shares to hold for dividends, investors must, of course, remember that a mine will not last for ever. Data furnished by the board of directors should, in the case of an established mine, be sufficient to give an idea of the life of the mine—that is, the period during which it can be profitably worked at a given rate. The investor must allow for the redemption of his capital, the return of his

money by the end of the period, in addition to a satisfactory dividend. No mining shares are worth holding which do not return at least 8 to 10 per cent in interest after provision for the redemption of capital. Any less return is unsatisfactory, considering the risks run, but during a "boom" we often find enthusiasts professing themselves well satisfied with 5 per cent, and arguing that any greater yield is an excuse for another rise in share values. Too much care cannot be exercised in making a choice, and a healthy disposition to go nearly as far as the Psalmist and regard most men as liars is highly to be commended.

When putting money into mining shares, always be most careful to avoid putting "all the eggs into one basket." Even if it is only a matter of £100, better divide it between two good mines than put it in one. If speculating for a rise, be satisfied with moderate profits. You cannot know too much about your property, as to the properties that surround it, the lines of reef, and so on. Frequently a rogue promoting a property will state in a prospectus that his worthless patch adjoins a great property. So it may do, and perhaps lies to the south of it, when the reef is going direct east and west, and "dipping" to the north. Know the nature of your field too, for some gold-bearing areas are reliable like the Rand, and others notoriously patchy and unreliable, even though in places very rich, like Cripple Creek. To buy without studying characteristics and position

is sheer lunacy. In new fields, too, it is well to inquire closely as to labour and other conditions. For instance, Rhodesia is suffering at the present time from want of labour, and West Africa will ere long be in an even worse position in all probability.

b.

PART II

CHAPTER XII

THE GILT-EDGED GROUP

British Government Securities.—The securities of the British Government loom largely in the eye of the public. "Safe as the Bank of England" owes three-fourths of its worth as the standard of excellence to the belief, or rather the knowledge, that the Government must come to the aid of the bank in case of difficulty. Yet there were times when the British Government credit was none too good, and there is many a government to-day which is in bad repute. Thanks, however, to our national wealth, and the consequent taxable value of the race, the security of a British loan is as good as it well could be. There are several British Government issues. Some of them are redeemable at a fixed price at a certain period in the near future. Others, as Consols, are redeemable[1] indeed, but have a fair time to run, for although the interest is reduced from $2\frac{3}{4}$ per cent to $2\frac{1}{2}$ per cent

[1] Note *redeemable*, which leaves the option with the Government. They need not necessarily be redeemed.

after April 1903, the stock cannot be redeemed until 1923, when it may be paid off at "par." If the Government wish to pay off any portions earlier, it can only be done by the operation of the Sinking Fund, the moneys in connection therewith being employed to effect purchases in the open market. Now "Consols" is simply another name for consolidated stock, so-called because "Consols" represent a consolidation of various old stocks of the Government. Sometimes, slangily, they are known as Goschens, owing to the fact that when Mr. Goschen was Chancellor of the Exchequer in 1888 he earned the anathemas of investors by effecting a scheme for the reduction of interest from 3 to $2\frac{3}{4}$ per cent.

In addition to Consols there are various other loans of the British Government dealt in on the Stock Exchange. Thus, certain outstanding annuities and South Sea stock were converted some years ago, and the Government agreed to give $2\frac{1}{2}$ per cent annuities in their place. These annuities have, of course, an important market value, for they are just as good as interest on ordinary stock. There is also a considerable amount of $2\frac{3}{4}$ per cent annuities. But these indebtednesses of the Government are very small in comparison with Consols, and it is consequently easier to deal in the latter, and for that reason Consols are preferred by most people to some of the minor issues of the Government. However, the shorter a loan has to run before redemption, the

steadier is likely to be its price, and there are minor loans of the British Government that have both this advantage, and at the present time a higher rate of yield. Such are the Local Loans stock, or the War Loan, or the Exchequer bonds.

The Local Loans stock has replaced in part certain holdings in the old Consols and 3 per cent annuities, and exists otherwise for the purpose of making loans to various local and colonial bodies for public purposes approved by the Government. It is a thoroughly sound security, of course, and although its nominal rights are not so comprehensive as Consols, the higher interest rate should make it attractive, while in view of the shorter period which it has to run before redemption it is likely to be less affected by passing political or financial events, and should therefore be steadier in value. Much the same remarks will apply to the War Loan, a temporary $2\frac{3}{4}$ per cent stock of short duration redeemable in 1910, and raised, as will be familiar to all, to aid in the provision of funds for the South African campaign. Consols, and the $2\frac{3}{4}$ per cent and $2\frac{1}{2}$ per cent annuities already referred to, together with the debts to the Banks of England and Ireland, comprise what is called the Funded Debt of the country.

The Unfunded Debt of the country includes the remaining charges and such floating indebtedness as treasury bills and exchequer bonds. The former are merely promises to pay at short date, three months, six months, or a year, and the accommoda-

tion they afford is much the same as that given by any other bill of exchange. Exchequer bonds are actually bonds, but usually of shorter duration than those which have been noted, running perhaps for three, four, or five years, bearing interest, and transferable by delivery, the principal being repayable at a fixed date. There is, of course, no interest on treasury bills, the recipients tendering a price for them "below par," and the remuneration for acceptance being in this discount rate.

Guaranteed Issues.—There are other important securities under the guarantee of the Imperial Government which are of great value for investors, although owing to their small amount they are, of course, less easily marketable than Consols, and cannot be bought or sold at such close prices. Such loans are the $2\frac{3}{4}$ per cent Irish land stock, the Egyptian guaranteed 3 per cent loan, which has the guarantee not only of Great Britain but of all the Great Powers, the Greek $2\frac{1}{2}$ per cent guaranteed loan, the guarantors being Great Britain, France, and Russia, jointly and severally. Such issues are, of course, quite as good as Consols, and the investor who wishes to buy the best and is not likely to want to realise for some little time, may find it better to look for some such security as those named rather than buy Consols. But it is necessary, of course, to look closely into the question of redemption. For instance, some of the Canadian guaranteed loans have now only a very short time to run, and a purchase might be

a very poor investment unless careful calculations are made.

Indian Government Issues.—Next to the securities of the British Government most interest is probably taken in those of our Indian dependency. The Indian sterling loans, the interest of which is fixed in gold payments, are trustee securities. There is no guarantee that, in case of disaster, the British Government would assume responsibility for these loans, but the guarantee is little doubted. Still the wise investor will note the omission. There are three of these sterling issues bearing interest at $2\frac{3}{4}$, 3, and $3\frac{1}{2}$ per cent, the two latter being the most marketable. All three have a considerable time to run, and this is of importance in respect to the two loans mentioned. The $3\frac{1}{2}$ per cent stock is not redeemable until 1931, and the 3 per cent loan until 1948. There are also several loans raised in India, the interest of which is payable by the Government in rupees, so that the question of exchange was formerly very important when the holder had to consider the amount in sterling which he had to draw at the Bank of England here. Now, however, the value of the rupee has been fixed. The rupee loans offer a higher rate of interest as a rule than the sterling issues. At £66 : 13 : 4 per cent "rupee paper" will yield what it professes to give in interest per cent. Thus the nominal interest, let us say, is $3\frac{1}{2}$ per cent, and the nominal value of the rupee is 2s. The actual fixed value of the rupee for

interest purposes at the Bank of England is 1s. 4d. or two-thirds its nominal value. At two-thirds of its nominal value of 100, or 66⅔, this loan will therefore return exactly 3½ per cent. The rupee loans are virtually promissory notes of the Indian Government, or they may take the form of stock inscribed at the Bank of England. What inscribed stock means we have already discussed. When held as promissory notes, rupee paper may be passed on to the next buyer by mere endorsement.

Corporation Stocks.—Very favourite forms of investment of late years have been the securities of the corporations and counties of the United Kingdom. In a time of scarcity of sound investments they naturally came much into favour, and although not always so marketable as they might be, they are likely to find great favour again in any period of slack trade and difficulty in securing investment stocks. They differ much, of course, in security, but, as was noted in the preceding chapter on Trustees, some of them are available as trustee securities. The yield is now generally higher than most other trustee stocks. During the recent great advance in stock values too high an estimate was probably placed upon them. The difficulty in dealing is often to obtain a reasonably close price, and the smaller the issue the worse, of course, the quotation. But for holdings over a long period, or in the creation of trusts, they are very valuable, and outside the area of the trustee investments some good sound bargains may be picked up. The investor

must, of course, make all necessary allowances for redemption when the issue is quoted above "par."

Colonial Stocks.—The position of the Colonial stocks as investments has been affected very considerably by the new regulations whereby, in certain circumstances, they may be admitted to the list of trustee securities. The conditions were discussed when dealing with trustee stocks. Up to the present the colonies that have availed themselves have been Canada, Victoria, and New Zealand. Inclusion in the trustee area naturally enhances the value of the Colonial stocks. The Australian colonies are at present labouring under some difficulty owing to the complications ensuing on the adoption of Federation, but sooner or later without doubt we shall find all the leading colonies accepting the conditions imposed. At the present time a better yield may usually be secured on Australasian stocks than on some others. Local conditions have, of course, very much to do with it. The public have not forgotten the over-speculation which caused such disaster in the Australian colonies in the early 'nineties. That memory has affected even the Government securities adversely. Whereas in the case of Western Australia, the Government has been compelled to borrow heavily for necessary development of public works, the return upon which is not likely to be immediate, there is naturally a tendency to regard the position as less sound than in the case of the better established colonies.

When looking into the value of the gilt-edged group as a whole, we have to take into consideration the rules laid down in the first two chapters. But there are modifying influences, the chief of which has been the increase of indebtedness due to the war. It must not be forgotten that during the late reign as much as £220,000,000 of the National Debt was paid off at one time, and the necessity for finding other means of investment, while the wealth of the country was increasing enormously, has been a main cause of the decline in interest yield that has been so noticeable in all our best securities. The investment field has been widened enormously, and the company promoter has done his best, but the increase in wealth and the reduction of 25 per cent of the chief investment area have been influences still stronger. Owing to the war we have had a big increase in Government indebtedness, and this at a time when the Sinking Fund was suspended and the trustee area widened. Undoubtedly these facts will tend against the upward trend of Consols and other securities, and although the normal developments will again be observable, the moderating influences may tend to disturb the order of such developments for some little time.

CHAPTER XIII

HOME RAILWAY SECURITIES

NEXT to British Government issues the securities of our Home Railways command the most respect and certainly the largest following among investors. The choice that is offered is very wide and varied. There are trustee securities and gambling counters, and between the two many issues that combine the attractions of an investment and a speculative purchase. But the investor requires to use much skill and caution even among the best stocks of the group. The very best securities, such as the debenture stocks of the leading lines, are necessarily governed by much the same monetary laws as other first-class investment securities. If trade is brisk, money will be dear, and prices of the stocks low, and *vice versâ*. The ordinary stocks of the railways are more dependent upon the state of traffics and the general financial condition of the companies. Then in the height of a trade "boom" the traffics will doubtless be very good, but, on the

other hand, prices are very high for coal, steel, timber, and all other requirements of the lines. The height of a trade boom should see, as a rule, a period of declining dividends commence, and this and the general dearness of money act as serious depressing factors. Again as trade slackens, traffics may fall off, especially for the great goods carrying-lines. But at the same time prices of commodities are falling, and very soon at a faster rate than the decline in traffics. A decline in goods traffic is not perhaps so serious an item as a decline in passenger traffic. Passenger trains run to schedule, whether half empty or not, but of course no goods trains need be run if there is nothing to carry. The railways will always gain the full advantage in the first instance of a trade revival. In 1895, when the improvement set in, traffics increased substantially, but expenditure was relatively low, for prices of commodities do not at first show any marked advance. Thus a good series of increases in dividends should set in at such a time. The traffics continue to improve, but by and by the prices of commodities go up by leaps and bounds, wiping out any gains to the railways for mere traffics and causing reduced dividends. Moreover, as trade improves there are fewer unemployed, and the cost of living increases. Men become discontented, demanding a share of the increasing profits, and labour agitations may be looked for in the railway world.

Directors should take full advantage of the

beginning of a trade revival to make necessary outlays on the road, but there seems to be none too much system in this respect in the way they work. Another defect of our railway methods is the steady increase in the capital account of the various companies. It may be fair to charge to capital the cost of extensions and such rolling-stock as is required to meet the needs of such extensions. It is certainly unwise to charge to capital ordinary additions of rolling-stock, rebuilding of stations, reconstructions of portions of the line, law expenses, and so on. An addition to capital may escape notice at the time, but it is a burden on the company that will be felt later. In good times nobody worries, but when it is difficult to maintain net revenue the severity of the pinch is felt. Net expenditure is increasingly difficult to maintain even in ordinary circumstances, for the tendency is towards greater weight of trains, more luxurious travelling, and a more expensive permanent way, and the wages bills are not likely to decrease, but rather the reverse. It is difficult to see where many economies are to be effected, but one important development of the present time is in the direction of a greater capacity for goods waggons, with consequent more economical handling.

Classes of Railway Securities.—Turning to the various classes of railway securities we have to note that the main divisions are debentures, which by the way have no mortgage rights over the per-

manent way as a rule, but merely over the rolling-stock, guaranteed stock, carrying a cumulative interest, but having nothing in the way of a mortgage, preference stock, usually, but not always non-cumulative, and ordinary stock. The last-named is often "split," being divided into preferred ordinary and deferred ordinary. When dividends are declared, it is usual to declare the dividend on the ordinary undivided stock, and then mention the relative amounts for the two portions. The preferred ordinary does not carry cumulative dividends. There are a few minor varieties of stock to notice. Thus, some of the lines have a rent-charge stock, which is equivalent to a guaranteed stock. Other lines have contingent-rights stock, which does not rank for dividend until a certain fixed amount has been paid on the ordinary. Unfortunately for the companies most of the debentures and guaranteed stocks are irredeemable, and as some of the securities are among the best in the country, it follows that too high an interest rate is being paid upon them, considering the greater value of money now as compared with the time of their creation. When an investor is buying railway stocks it is, of course, always advisable to examine the history of the company. Even a debenture may be very risky, as in the case of the Cambrian. On the other hand, most debentures and guaranteed stocks are "trustee" securities, the condition being that the ordinary stock has not paid less than 3 per cent over a period of ten years. This is really a rather

odd condition, for if an ordinary stock was very small in amount the conditions might be fulfilled, and yet the company be in a worse position than another line earning a lower rate on very large ordinary capital.

Traffic Statements.—Every week each of our railway companies publishes a traffic statement, in which a statement of its goods and passenger earnings for the past week are published, and comparison is made with the previous year. These traffic returns are sometimes seriously under-estimated, chiefly so far as some of the great goods-carrying lines are concerned. We say "under-estimated," for there are numerous items to come into the week's revenue that are not to hand in time to include in the returns, and these are necessarily guessed at. So that when the half-yearly reports are published, it usually happens that the actual receipts of certain lines are considerably in excess of the amount of the published traffics during the period. The traffic returns are very valuable guides to the development of trade. When we see the goods and mineral traffics of our "Heavy" lines increasing we have indications of trade revival, and if they are confirmed by increasing bank clearings, better monthly showings in the Board of Trade returns, and a tendency for the Bank of England reserve to fall, and money and discount rates to rise, there are unmistakable evidences that trade is on the mend.

Railways considered individually.—We may

now group the railways according to the class of business which is done by them. In the market, the main groups referred to are the "Heavies," the "Southern stocks," and "Scotch stocks." The Heavies are the great goods-carrying lines, the London and North-Western, the North-Eastern, the Great Western, and the Midland. To these we may append the Lancashire and Yorkshire, or the "Leeds," as it is nicknamed. Similarly the North-Western stock is referred to as "Brums," and the North-Eastern stock as "Berwicks." The southern group comprises the London, Chatham, and Dover, the South-Eastern, and the London, Brighton, and South Coast, together with the South-Western, all passenger and agricultural lines. The Hull and Barnsley is an important little coal-carrying line. The Great Eastern has a great agricultural business, very heavy local passenger traffic, and with its new "feeders" in the Sheffield district, such as the Lancashire, Derbyshire, and East Coast, bids fair to become an important "coaler" as well. The Great Central, which is the old Manchester, Sheffield, and Lincoln, has a white elephant at present in its London extension. The traffic has to be built up along this route, and in this respect it has probably as much in the way of ultimate "prospects" as any line. The Great Northern is an important goods and passenger line, and forms an extension Londonwards of the North-Eastern. In the London district we have the two "undergrounds" proper—the Metropolitan and Metro-

politan District, both passenger lines, and the various electric passenger lines, such as the Waterloo and City, a feeder of the South-Western, the City and South London and the Central London. The Metropolitan and District systems will shortly be converted for electric traction, and indeed electric traction seems to be likely to be very widely adopted during the course of the next few years, even for considerable sections of our leading lines. Minor systems are the various little Welsh railways, the Barry, the Cardiff, the Taff Vale, and the Rhymney, all chiefly engaged in heavy coal traffic, and therefore very dependent on trade and shipping; and the Furness railway, dependent chiefly upon iron and coal traffic, although in the summer enjoying a considerable tourist traffic. There is also the Cambrian system, chiefly passenger and agricultural. In the Scotch groups we have two important systems which do a considerable goods and mineral traffic, the Caledonian and the North British, to which we may add the Glasgow and South-Western, commonly called the Ayrshire; then there are the passenger systems, enjoying considerably less goods traffic in proportion—the Highland and the Great North of Scotland. Obviously, where a line serves densely populated districts, the working expenditure ought to figure out at less in proportion to those with a sparse and scattered population. Thus, to serve districts such as those of the Lancashire and Yorkshire should be cheaper relatively than to serve those of

the Highland. Moreover, when trade is lowest and prices high, and consequently expenditure is heavy, we have a tendency for the lines serving the more scattered district to feel the pinch more severely, for the lines serving busy and densely populated manufacturing and mining districts are enjoying large increases in traffics which are counteracting effects of high prices to a considerable extent.

Half-yearly Reports.—A very satisfactory feature of our railway methods is the compulsory form of their half-yearly reports. The railways are bound to furnish certain abstracts of expenditure which enable us to see very much how money has been expended. The accounts are issued in regular legal form, so that concealment of important matters is very difficult. We are able to note the train mileage run, and to see how far the company has benefited thereby. We can see the detailed results for the half-year of traffic receipts, and can apportion the increased charges against revenue to coal, the wages bill, and other important items. In addition, we can see the expenditure on capital account, and the amount that may be outstanding in the way of indebtedness not represented by ordinary stock, such as "Lloyds bonds" issued to contractors for work done.

What to Buy.—As regards the value of various classes of stocks and individual securities, it is well to say a few words. If the investor wishes for an absolutely safe security, he need not go further

than the debenture and preference issues of our leading railways, applying to them the same principles that he would apply to all leading gilt-edged stocks. If he wishes to buy on the chance of improving trade and increasing dividend, he will pick up the ordinary or deferred stocks when the first indications of trade revival come along. Speculatively, some of the deferred stocks are then very attractive. Of course, the smaller the amount of the stock, the more decided will be its movements owing to the violent dividend fluctuations. It is easier to build up a 3 per cent dividend on £5,000,000 than a 1 per cent dividend on £20,000,000, and that 3 per cent dividend may disappear again when there is yet ¼ per cent being paid on the bigger amount. So that the fluctuations in the price of the smaller security are liable to be more pronounced. So, too, in examining the position of preference, or preferred ordinary security, it is well to note the extent of the capital ranking after the issue on which dividend is being paid, and what security is afforded. If there are two cases of £10,000,000 of 4 per cent preference, and in the case of one company £10,000,000 of ordinary earning 5 per cent, and in that of another £15,000,000 of ordinary earning 4 per cent, it is obvious that the last-named company offers the best security for the preference stockholder. In discussing preferred and deferred ordinary, it is necessary to point out that in some cases the original ordinary stock is "split," and in others duplicated. In the former

case £100 of ordinary stock became £50 of preferred ordinary and £50 of deferred ordinary. In the other case £100 of ordinary stock was treated as £200, of which £100 was called preferred ordinary and the other £100 deferred ordinary. There is some confusion in the minds of investors on the subject of the Great Northern deferred stocks. This was due to a double splitting scheme. Under one the ordinary was divided, and increased in nominal amount, £75 of preferred ordinary, carrying 4 per cent non-cumulative, and £50 of deferred ordinary being issued for each £100 of ordinary. These are the stocks known as "York Preferred" and "York Deferred" in the market. There is another splitting, an older one and involving small amounts, but having the peculiarity that the preferred ordinary has cumulative dividend rights of 6 per cent. For each £100 of the old £50 of each class was issued, and the preferred and deferred portions are known in the market as York "B" and York "A" respectively. The peculiarity of this double arrangement is sufficient excuse for mentioning the matter here.

With trade reviving we should, of course, see the big minerals and goods carriers, such as the North-Eastern, and the other Heavies, the Caledonian, North British, and even such busy little lines as the North Stafford, the Hull and Barnsley, and others, showing improvement. On the other hand, the passenger lines do not derive such marked benefit, although their stocks will probably advance

with the rest of the market. Although the investor is naturally attracted by the "Heavy" stocks, such a time as the beginning of the trade revival is specially favourable for buying North-Westerns and others. In other words, the time for buying these and others of the Ordinary railway stocks is after a few years of slack trade, when gilt-edged stocks will have appreciated, and an exchange from the latter may be advisable.

CHAPTER XIV

AMERICAN RAILS

PROBABLY the British public have lost as much money at one time or another in American Rails as in any other market. That was to a very large extent a necessary result of a big development "boom" that has helped to make the United States. The vast resources of the country led to over-confidence, capital poured in, railway schemes were mooted everywhere, and the promoter, as usual, saw his chance, and often promoted companies to build railroads from Nowhere-in-Particular to Nowhere-at-All. Over-capitalisation and over-construction of railroads led to severity of competition and rate-cutting, and in bad times the results were very serious. The railroad company-wreckers were busy, competition bred rivalry and construction of duplicate and altogether unnecessary roads, receiverships were frequent, and away went the capital of the investors. Glancing down the list of American railroads well known to British investors—a list of securities of twenty different roads

quoted for the American Railway market in London by one of the financial "dailies"—we have to note that as many as ten have been bankrupt and in the hands of receivers within the past fifteen years. As late as the great collapse of 1893, nearly one-fourth of the entire railway system was bankrupt. These facts argue in favour of caution.

Now, it would be foolish to argue that the conditions ruling in the United States of to-day are the conditions that ruled even as late as ten years ago. The severity of the railroad competition has ceased, powerful interests are consolidated to prevent rivalry, new policies have been adopted, the country has made gigantic strides in wealth, and has developed its resources enormously. The railroad systems, for which the British investor has paid so heavily, have benefited the country very much, and doubtless we all feel pleased. Banking is on a better basis, although there are many financial reforms that are still pressing for notice. For the past few years the United States has enjoyed unexampled trade prosperity, and has been blessed with bountiful harvests. Owing to the curious complications in Europe, due in great part to the Boer war, we have found that not only has the United States repurchased many of its railroad securities, but it has commenced to lend money to Europe. For the past year or two the American railroad market has been strikingly good.

Economically and financially, the position has improved enormously. The result has been that,

as usual, people find it difficult to think of "bad times," "free silver," or any of the old terrors. But the United States is yet a young country, and is yet liable in consequence to very violent fluctuations in the earnings of its railways and the consequent dividends. The facts must not be lost sight of, and while investors must note the improvement and be more ready to invest in the best securities when good opportunity offers, the ordinary laws of prudence must not be disregarded.

The "granger" group, or the great grain-carrying roads, illustrate a contention raised elsewhere. After a period of good harvests, the old evil days are ignored. Investors are too often willing to capitalise a company's stock on present earnings. It may have paid 5 per cent last year and stand at 100. If by a stroke of luck it pays 10 per cent this year, market speculators will probably put up the price to 200, instead of looking at an average earning power over a period of years and regulating prices accordingly. The wise investor may buy after a bad period, when things are improving, but he will certainly sell on the inflated prices following a year or two of good luck. These "granger" roads are the Chicago North-Western, Chicago, Milwaukee, and St. Paul, nicknamed "Milks" in the market, the Chicago Burlington, and Quincy (the C.B. and Q.), and the Chicago Rock Island and Pacific; the Illinois Central and the Great Northern, and the Northern Pacific, are also great grain-carriers. The "granger"

lines of the great North-West have marked possibilities, for there is room for vast development in these regions, but for the present they depend for the most part on the success of the harvests. There are other valuable resources which must in the future be developed, to the great profit of the various railways, but that is looking a considerable distance ahead. The important thing to note is the enormous difference which good harvests make to these roads, the experience of the past being that one-third, or one-half perhaps, of the former net earnings will disappear in bad times even on the best established lines. Where traversing comparatively thinly-populated districts, expenses are heavy, and unless there are agricultural prosperity and bountiful harvests, the roads will suffer severely. After a succession of bountiful harvests such as those enjoyed of late years, and considering the great speculation in American Rails, which has advanced prices enormously, the investor would be best advised to wait for reaction. But on a market reaction and after a bad harvest or two, when prices have relapsed considerably, the investor should not fail to consider the possibilities of this section. Of the lines we have noted, the chief "grangers" are closely concerned with grain-carrying. The Illinois Central is a vast system enjoying a well-varied traffic, for not only is it a great grain-carrier, but it is a big transporter of minerals and timber, as well as a cotton carrier. It is not surprising therefore that the securities of the

road are more of the steady-going order than those dependent on bountiful harvests, or brisk trade alone. The Great Northern is another of the lines of the future, partly owing to it forming part of a great Trans-Continental system, and partly to the wealth of the area which it traverses—wealth that is as yet only partially exploited. In addition to being a big grain-carrier, it taps the mining districts of the far North-West, and will ere long be the owner of extended steamship services which will render it a big carrier between the United States and the Far East. The Northern Pacific enjoys a business of much the same nature as the Great Northern, extending also to the mining regions of Washington, and being a great grain and timber carrier. Its history has, however, been far more chequered than that of the Great Northern. The Atchison, Topeka, and Santa Fé, an important road which has improved its position enormously of late years, but which has had a very chequered history, is an important grain-carrier, and is largely interested in cattle and cotton, while penetrating also the gold and silver mining areas of the South-West. It is a sufficiently important grain-carrier to be considered with the "granger" group, but it has mixed possibilities elsewhere which may render the system one of the most important in the States in the future.

We will now turn to the group of "coaler" roads, and first we must divide these roughly into are "bituminous" or "soft coalers," and the

"anthracite" or "hard coalers." When trade becomes brisk, the "soft-coalers" feel the effects at once, for it is the bituminous coal which is the factory coal. The anthracite is the hard coal of domestic consumption, and although the increased demand in time of brisk trade in the manufacturing area will cause increased inquiry for anthracite coal, the roads of the group will not be so much benefited as those of the bituminous, or soft coal section. The coalers then may be grouped as follows:—

Hard Coalers.—Philadelphia and Reading, Pennsylvania, Delaware and Hudson, Lehigh Valley, Central of New Jersey, Lackawanna, Ontario, and Erie.

Soft Coalers.—Norfolk and Western, Chesapeake and B. and O. (Pennsylvania controlling most traffic).

The division is a rough one, *e.g.* the Erie is also a heavy carrier of "soft coal," but, under certain new schemes, will be a still more important carrier of household coal. The Pennsylvania, too, is necessarily a great bituminous coal carrier. The great coalfields of America are found in the mountainous region of the Alleghanies, from which these various railroad systems radiate. One of the soundest of the companies is the Pennsylvania, a "Heavy" road doing an enormous business in a busy manufacturing area in the "black country." The road has always been well managed, and the securities of the Pennsylvania should be among those to which the British investor should naturally turn

when prices are low, rather than to some issues in the more speculative roads with which the United States abound, which have "watered" capital, and the securities of which are frequently subjected to dishonest manipulation.

The New York Central ranks with the Illinois Central and the Pennsylvania as the greatest of the American railroads. It is in good hands and well managed, and its securities are among the "safe" investments. Between such roads as these three and rubbish of the class of the Wabash or Ontario, there is as much difference as between London and North-Westerns and Chatham or District Ordinary at home. It is now combined with another Vanderbilt undertaking, the Lake Shore, which was formerly used as the Chicago extension, and the new system is a great trunk line between New York and Chicago, with branches in Michigan, and important feeders in the Chicago and North-Western and other systems. It is, in fact, the London and North-Western of the States, just as we may class the Pennsylvania as the North-Eastern of America. It has an enormous traffic of a varied kind, and therein stands out more independently of manufacturing conditions than many of the roads.

Continuing our notice of the American railroad favourites on the London Stock Exchange, we must now turn to other and more speculative concerns which must be reckoned among the great trunk lines of the country, although their security to

investors is very different from that offered by the roads which we have just noticed. The Union Pacific is now an important system, although it has had a chequered career, for being projected through a vast and thinly populated area, and saddled with Government debt, it was eventually borne down by the sheer weight of its burdens. Nevertheless, in working relations with other lines, it now virtually forms a great trunk system connecting the East with the Pacific. Since its reorganisation it has furnished some of the favourite gambling counters of the market, and in common with several other roads has been used by the market wire-pullers for the suggestions of schemes and amalgamations, whereby popular interest is aroused and prices advanced to a prohibitive level. Another line of the West that has enjoyed the usual chequered history is the Denver and Rio Grande, although to-day a road in better repute than many of its fellows. It serves the Colorado mining districts, and is an important coal carrier as well as serving many of the mining camps of that region. It is something of a monopolist in its way, and enjoys a compact system, with extensions to Santa Fé and Salt Lake City, and has of late years on the whole had a more steady-going and successful career than might have been looked for from its earlier history. In the market its fate is commonly connected with silver, wheat is extensively grown in the territories which it serves, and its position reminds us of the "free

silver" bugbear of the United States, which is not at all unlikely to be revived when "bad times" come round. The seriousness of a scare of that nature needs no other demonstration than the fact that there exists among American railroad securities definite "gold bonds"—promises to pay interest in gold whatever the currency experiments may be.

The Southern Pacific, which road extends from New Orleans westward to San Francisco, with important Pacific coast branches, connections with leading Mexican systems and other branches, has, by its recent virtual acquisition of the Central Pacific, acquired a connection between San Francisco and Salt Lake City. The system is one of the largest in the United States, and as befits a western road, it has had as bad a history as any. Nevertheless, in spite of its disadvantages, the road is virtually a monopolist of its region of operations, and it has always had great possibilities from the speculator's point of view. However, the steady-going British investor may prefer to leave most of these western lines severely alone.

We have already discussed the Illinois Central, which affords a connecting link between the great grain regions of the North-West and the cotton districts of the South. The chief speculative favourite of the London market in this cotton region is undoubtedly the Louisville and Nashville. The road has not only its position as a great cotton carrier, but it is of interest as tapping the Birmingham manufacturing area. Thus it has

two important and vastly different branches of industry upon which to rely, and as it is connected with New Orleans as a shipping port, the marvel is that the road has not made more headway in the past, its troubles having probably been due to a certain extravagance of method.

The Southern Railway is an important system in the south-east of the States, operating between Memphis and Mobile on the one side, and Baltimore, Norfolk, and Charleston on the other, and being in connection with most of the railway systems serving Florida. The road has made steady progress for some years past, but as in the case of all other American railroads of a speculative nature, any improvement is very promptly discounted by a big rise in the market values of its securities. Indeed, the healthiest antidote to the "American fever," which seizes not only the Yankee operators but our own stock markets, is to study the violent movements in the prices of speculative securities in time past, and to remember that much the same arguments that we hear to-day were advanced some years ago in previous "booms," with disastrous enough results for investors who listened to them.

We can dismiss the remaining American securities well known on this side in a few words. The Missouri, Kansas, and Texas was managed in its early days with more than its fair share of iniquity; but then the notorious Jay Gould had much to do with it. The road has never done much good

since, and probably never will, but it is at all events better managed. To add to its misfortunes, it was the chief sufferer by the Galveston disaster, that port being its seaboard terminal. The Wabash is another poor thing in railroad systems, and as the superstition of the American market has it, when speculators begin to be attracted by the end of the alphabet, the Wabash being that end so far as the American market is concerned, the "boom" has well-nigh worked out. The present system was due to Mr. Jay Gould. The road is a big maize carrier, but it has always been in low water, and its securities need not worry British investors.

What is known as the "Big Four" is an amalgamation of four roads in the Cleveland, Cincinnati, Chicago, and St. Louis Company. It is one of the Vanderbilt companies, connecting with the New York Central system and extending to Indianapolis, whence radiate various short branches.

Investors in American railway issues will note, of course, that the shares are quoted in dollars and not in pounds sterling, so that we may reckon five shares quoted at 100 as the equivalent of £100. Usually, whether shares or bonds, they are of $100 each, some few being of $50, notably the Pennsylvania. American railroad prices are, of course, ruled from the Wall Street Exchange at New York, although there is considerable business at Berlin and other Continental centres, as well as on the London Stock Exchange. Indeed, the difference in the scene on the Stock Exchange when the

American market is busy from that in slack times is striking. In part this is due to the importance of the street market in busy times. When the "House" itself is closed there is usually an overflow market for an hour or so in mining shares in Throgmorton Street. The American overflow market is held in Shorter's Court. Wall Street does not commence operations until three o'clock in the afternoon by our time, and for the next two or three hours keen interest is taken in the prices cabled over. These prices come over without allowances for exchange, and when this allowance is made, the adjusted price, which exactly represents the total, is called the "parity." Thus, when we say that London prices in the morning open over parity, we mean that our prices are higher than the Wall Street quotations together, with allowances for exchange. These fluctuations lead to brisk arbitrage business, as we have already described, and an active American market is a very good thing for the cable companies.

American railroad securities are divided into bonds and shares. Usually the bonds are not registered in the name of the actual holder, although this can be done, by official endorsement. Purchasers of so-called mortgage bonds should be very careful as to the security. Sometimes a so-called mortgage is practically worthless. So, too, where interest is guaranteed by another road, it will be necessary to examine into the question of the ability of the guarantor to pay, for experience

has shown that often a guarantee has been worthless, and even when the bondholders of a subsidiary have foreclosed, the road, apart from the greater system, has proved worth little or nothing to the mortgagees. There is often much confusion as to the mortgage rights on American railroad properties. As regards American railroad shares, they are usually transferred by what is called endorsement in blank. The name of a purchaser appears on the certificate. The new buyer does not have his own name endorsed, but is content with the original one. So far, therefore, as the new buyer is concerned, the endorsement is *in blank*, the registered holder simply signing a transfer form on the document, which makes it a "bearer" security, capable of being handed round like a bank-note. Frequently, the name of the registered holder is a well-known firm in this country. When it comes to collecting dividends, application has to be made to this firm or the registered holder for them, and they are duly handed over. Or, if the new holder prefer it, he may have the shares registered in his own name, appointing some respectable firm over there to act as his "attorney," and collect and forward dividends.

There is a kind of American railroad security which is termed "Income Bonds." These must in no way be confused with bonds having a mortgage right, for they are usually merely a kind of preference issue, ranking between the debenture bonds and the ordinary preference.

AMERICAN RAILS

A marked revival in American railroad policy has been observable of late. In the old days competition was rife, and to prevent rate-cutting agreements between the roads were resorted to. These being declared illegal, we have renewed consolidation of interests through purchase or otherwise, until in Eastern States railroad power is in few hands, and elsewhere the process of consolidation continues. Thus the American roads are on an entirely different footing, and these consolidations must tell in favour of business and steadier receipts, the roads being merely dependent on trade conditions. The Vanderbilt control has been extended enormously, until the railways under the sway of that group comprise the New York Central; Chicago and North-Western; New York, Chicago, and St. Louis (the "Nickel Plate"), Cleveland, Cincinnati, and Ohio, Michigan Central, "Big Four," and others. The Pennsylvania, the other great Eastern road, now controls the Norfolk and Western, Baltimore and Ohio, Chesapeake and Ohio, and, in fact, practically all the bituminous coal roads. These two great trunk lines are friendly, and their possible competitor, the Erie, is virtually brought into their control through mutually friendly interests. The Hill and Morgan interests are concerned in the Erie, Northern Pacific, and Great Northern, and the Reading is a Morgan line. This tendency towards consolidation is only in its infancy, and in viewing the future for American rails must not be ignored.

CHAPTER XV

COLONIAL, INDIAN, AND FOREIGN RAILWAYS

Canadian Railways.—The securities of the Great Canadian Railway systems are favourites with British investors, and their position has been much improved of late years. To a very large extent, of course, they are dependent upon harvests, and a bad harvest would make a considerable difference to their revenues. The *Canadian Pacific*, which has a great Trans-Continental system, is, however, following a policy of carrying big sums forward, and even its ordinary shares, which are quoted in dollars, and not sterling, are nowadays a fair speculative investment returning a high yield. The prior securities are very well worth the attention of investors. Apart from the grain-carrying track, the Trans-Continental traffic and the British Columbian trade are factors in favour of this line, although in these respects the company has serious competitors in the American systems. *The Grand Trunk Railway of Canada* serves the district between Chicago and Montreal,

with extensive branches in the Lake area, and extensions to the Atlantic. It has settled down apparently into a well-managed road, but is more susceptible to the troubles of the American railroad world than Canadian Pacifics. Its prior issues are sound securities, its first preference may be regarded as a high-yielding speculative investment stock of a good class, and its junior preferences as degrees in decidedly speculative risks. The Ordinary is, of course, nothing but a gamble. There are several minor Canadian systems that look well as regards yield in brokers' lists, but they must be examined with great care, even where the blessed word "guaranteed" occurs, or they happen to be of the nature of debenture bonds. On examination, the conditions of the security are very often most unsatisfactory.

South African Railways.—In connection with the railway developments to the north of Cape Colony, various issues of a more or less speculative character have been made, but they will not appeal to the steady-going investor, although their high-yield may tempt some who, in spite of a certain amount of risk, will buy a high-yielding security for mixing with others to raise the total interest rate. Such a security is that of the Rhodesia Railways, a company which owns the system from Vryburg to Gwelo, and which will extend still further northwards. Its issues are variously secured on sections of the line, and there are guarantees by the Imperial Government and the

Chartered Company, but only for short periods as regards the two latter, except in the case of the 4 per cent debenture, where both principal and interest were guaranteed by the Chartered Company. Much depends upon the future, and in the minds of investors much depends upon the worth of the Chartered Company's guarantee. The Mashonaland Railway also enjoys a guarantee of the Chartered Company for a term of twenty-two years from 1897 in the case of its first mortgage debentures. This company also works the Beira Railways, which operate between Beira, on the coast, and its own system. Everything depends in the case of the latter upon the worth of Rhodesia, and the shares are thus highly speculative.

Indian Railways.—The Indian Railway securities form an important investment group, and one that is deservedly popular. Some of the securities are now simply of the nature of Government annuities, as where the Indian Government has exercised its option of purchasing the railways. Thus in the case of the East Indian and the Great Indian Peninsula we find two classes of annuities, "A" and "B." The latter is a trustee security, for provision is made, by means of a sinking fund, to redeem capital. The former is a term annuity at a higher rate, with no provision for the repayment of capital on the expiration of the term. Both are, of course, of the highest security, and it need scarcely be said that debentures issued in connection with the systems so acquired are among

the best possible. Then we have the railways that will be acquired within a certain period. Thus there are the Bombay and Baroda, the Indian Midland, and others. These are called the "guaranteed" lines, the Government guaranteeing a certain minimum of interest, and taking a certain proportion of the excess earnings over the amount necessary to meet that interest. Here, again, we have excellent investment securities, which must certainly not be neglected. Of late years India has suffered much from famine and plague, and as regards the guaranteed railways there was some little misconception as to the redemption terms, which led to an unpleasant awakening when the G.I.P. (or Great Indian Peninsula) was acquired by the Government. Thus at such periods as those when the circumstances have been adverse all round, the excellence of the securities should lead investors to regard them favourably. In cases where guarantees are given the Government naturally reserve the right to redeem at certain periods and on certain terms, and investors have, of course, to consider these possibilities.

The following Indian railways are the most important of those that have a certain amount of their interest guaranteed by the Government. Assam-Bengal (3 per cent guarantee; right of redemption in 1921; half-share of surplus earnings to Government); Bengal-Nagpur (4 per cent guarantee; Government takes three-fourths of surplus earnings; redeemable in 1913); Bombay, Baroda

(5 per cent guarantee; Government takes half excess earning; redeemable in 1905); Burma Railways (2½ per cent guarantee; Government takes four-fifths surplus earnings; redeemable in 1921); Delhi, Umballa, Kalka (3¼ per cent guarantee; Government takes half surplus; redeemable 1916); Indian Midland (4 per cent guarantee; Government takes three-fourths surplus; redeemable in 1910); Madras (5 per cent guarantee; Government takes half surplus; redeemable in 1907); South Indian (3 per cent guarantee, and half surplus to company; redeemable in 1911); and Southern Mahratta (3½ per cent guarantee, and one-fourth surplus to company; redeemable in 1907). Investors cannot do better than buy such securities as these.

The Bengal and North-Western has no Government guarantee, and depends upon its earning power, which is very steady as railways go. The Government has, however, redemption rights. The Nizam's Guaranteed State Railway of Hyderabad enjoys a guarantee for a term of years from the Nizam's Government, but the position is not so favourable generally as is the case of other Indian guaranteed railways, and therefore the interest yield is higher. The company only recently commenced to earn sufficient to cover the guarantee, which only runs for twenty years. There are other Indian systems that are worthy of attention from investors, but we have here indicated the chief of those likely to be of service.

Argentine Railways.—British investors have put much money into Argentine railways, and in several cases with very profitable results. We shall deal here briefly with the chief of the Argentine railway systems. The Buenos Ayres Great Southern, a very important system traversing the region to the south and south-west of Buenos Ayres, and practically a monopolist in its own area, is the "North-Western" of the country, its securities being the pick of the basket at fair prices. It is a great wool-carrier, serving vast pastoral regions, and there is a considerable grain traffic. The Buenos Ayres Pacific has a well-assorted traffic, grain representing the heaviest portion, but it also serves important pastoral districts. There is a big traffic in wine, sugar, raisins, and timber. This railway extends from Buenos Ayres westwards, and is connected with the Trans-Andine railway by the Argentine Great Western, so serving as a Trans-Continental route to Chili. The Buenos Ayres Western system lies to the west of the Great Southern. Its securities are much more speculative, however, than that system, although its position has considerably improved of late years. It is a cereal carrying line, and therefore good crops are the first requisite for its success. The Argentine Great Western is also more speculative, but it is developing rapidly and opening up new districts.

Two important systems extending northwards from Buenos Ayres are the Buenos Ayres and

Rosario and the Central Argentine railways. The first-named extends northwards as far as Tucuman, and has to compete for traffic at Rosario with rivals. The system has been improved of late years, recent consolidations having been favourable to the company. This line and the Central Argentine rank with the Great Southern as the best for the attention of investors. The Central Argentine is a great carrier of cereals, serving the maize and wheat districts of Cordoba, Santa Fé, and the northern portion of the province of Buenos Ayres. In fact, half its traffic is grain traffic. The directors have paid great attention to developing its area by opening up new districts, but neither this line nor the Rosario has been so careful as the Great Southern, there having been more straining after dividends the while the last-named line was carrying big sums to reserve against a rainy day. We have carefully to consider these facts, and after a few good harvests the price of the securities of grain-carriers may be higher than would be warranted were a single bad year to come along. Attention to reserve funds is therefore a requisite in good times. Especially in the case of the railways serving the north must investors consider the possibility of an invasion of locusts. Another point is the position of the gold premium. If it is relatively low, the railways score when converting their earnings into gold. If it is high, then they will receive less gold for their currency earnings. It is far better for the railway companies, therefore, if

we find our Buenos Ayres gold premium quoted nearer 150 per cent than 200 per cent. If the Argentine railway stocks are offering a fairly good yield at the prevailing prices after a poor harvest and when the gold premium is high, they are good enough to buy, for the investor has two strings to his bow: the gold premium may decline and the next harvest may be better—in fact, the former will depend very much upon the latter. But after a succession of good harvests, the wise investor will be very exacting in his demands. Before leaving the subject of the Argentine railways we may glance at a minor system, that of the Cordoba Central, serving Tucuman, with its important sugar industry, for which the Buenos Ayres and Rosario line also derives considerable benefit. This company and the Central Northern Section, a branch of the Cordoba Central, are both in a more speculative position than the chief lines of the country, and will only have attractions for speculators. Lines such as the East Argentine, the Entre Rios, the Central Uruguay, and other minor systems, also only have interest for speculators of a more decided type than those who can reasonably invest in the chief Argentine rails.

Brazilian Guaranteed Railways.—These are rather in a transition state just now, for the Government, which guarantees a certain interest for a term of years in most cases, is negotiating for the purpose of acquiring the lines, and in some cases—the Bahia and San Francisco and the Recife

and San Francisco for instance—the terms have already been announced. Many of these companies would do badly were it not for the guarantee, and Brazil has by no means shown the progress that might have been expected when her great natural resources are viewed. The guaranted railways may be roughly divided into two classes: those lines with longer guarantees, and others with short guarantees of only thirty years. It is, therefore, very necessary in buying railway securities of the group to look at the possibility of the line paying apart from the guarantee. And so far as present guarantees are concerned, there is little inducement for a company to do more than make both ends meet, and in present circumstances most of the guaranteed railways must be looked at merely from the point of view of Brazilian credit. The position of Brazil is none too sound, and her guarantees have latterly been paid in "funding bonds" and not in cash. Taking this into consideration, and the fact that many of the railways are losing heavily in actual working, the speculative character of the group is seen.

Mexican Railways.—The chief of the Mexican railways known here are the Mexican Railway itself, the Mexican Central, Mexican National, Interoceanic of Mexico, and the Mexican Southern. Of these the Mexican Railway, the Southern, and the Interoceanic are British, the remainder are American. Like most railway concerns these Mexicans are bought most profitably after a period

of depression when trade is reviving. The American group, too, depend very much on the condition of the American Railway market as a whole. Of late years Mexico had been flourishing exceedingly, and the railways are working together amicably. It has not always been thus, and latterly trade has been falling off. Another ruling factor is the price of silver. If this is high the railways score when transmitting to this country, and *vice versâ*. As regards the systems of these railways, the Mexican Central connects the Southern Pacific and the United States with Mexico City. It has also an important port in Tampico, on the Gulf, which is the great rival of Vera Cruz. The latter town, which has now a safe harbour, and is likely to increase still further in importance, is served by the Mexican Railway, which connects it with Mexico City, and extends westwards. The Inter-oceanic also connects Vera Cruz with Mexico City. The Mexican National joins Mexico City with the Texas systems. Its securities are known in the London market by rather peculiar terminology. An English company was formed, which took over certain bonds and issued against these new certificates, now known in the market as "A" and "B" respectively. The Mexican Southern Railway is a shorter system, extending from Puebla on the Mexican Central system to Oaxaca southwards in the interior.

Among minor railway systems which have some interest for British investors we may refer to the

Costa Rica Railway, a little line engaged in heavy carriage of bananas and other tropical products, but highly speculative owing to the dangers of possible competition, for the planters are by no means enamoured of the system. Then there is the Western Railway of Havana, also known in our markets, which was formerly a Cuban concern, but is now a British company. This little line serves a busy tobacco and sugar-growing district, with possibilities also from a pastoral point of view. With other lines known in our Stock Markets, such as the Ottoman Railway (Smryna-Aidin), a little system extending into Asia Minor, and other small ventures, it is not necessary here to deal at length. But some inquiry into their local conditions, the nature of their traffic, and their history, is necessary even before purchasing them as the merest speculative investments.

CHAPTER XVI

FOREIGN SECURITIES

An enormous amount of British capital is sunk in the loans of foreign nations, with varying degree of security. There would be no disposition on the part of a British investor to purchase such as United States bonds, which offer even a lower yield than our own Government stocks. But higher rates and varying degrees of security characterise the foreign group, and the British investor is often willing to turn the facts to his advantage. First, we may look at the best of the securities of the European Government. French *Rentes* are an irredeemable security on which 3 per cent is paid as interest, although there are other minor issues which are redeemable and offer different interest rates. Interest is paid in French currency, so that the return may be slightly modified by exchange movements. Thanks to her misfortunes, France possesses the greatest national debt in the world. At the same time her wealth is enormous, and the security of her loans, of course, undoubted.

The British investor has an insular prejudice against Continental loans, owing to his fears as to international politics, but in this respect he is often forgetful of the fact that serious international complications offer just as many risks of embroilment to this country as to other nations. French *Rentes* may offer few inducements to the British investor, owing to the fact that he can probably employ his money better at home, but some of the other Government securities offer him advantages.

The German 3 per cent loan is redeemable at "par" at the option of the Government, and the interest payments are subject to slight fluctuations owing to exchange. These bonds are usually standing at a figure which returns a very fair yield to investors in the best securities. Of late years various adverse influences of a temporary nature have been at work to depress the price, and the security deserves more attention probably than it has received from foreign investors.

Hungarians are a popular loan in this country, the interest on the *Rentes* being 4 per cent, and the bonds are irredeemable except by purchase in the market. Investors must, of course, not lose sight of the possibility of dynastic troubles in Austro-Hungary, and that is the chief danger that threatens them. At one time, however, Austrian securities were in very bad odour in this country, and were, in fact, unquoted in the Stock Exchange Official List owing to a piece of sharp practice of which Austria was guilty when converting certain

of her loans. The peculiar political conditions must not be ignored.

The poverty of Russia and her enormous debt are two bad points to consider when referring to her loans. On the other hand, she has treated her bondholders well, and although she has borrowed enormously, much of the money has been wanted for reproductive works and the development of the empire generally. There is always much that is artificial in the price of Russian securities, financial support being freely rendered, for Russia is continually in the field as a would-be borrower, and her credit has to be maintained somehow. Her bonds offer a better yield than most government securities, but of course there is rather more risk.

Two important securities from the speculative investor's point of view—securities which are favourites on the Bourses and have much the same drawbacks, namely, the fear of political and financial troubles—are those of the Spanish and Italian governments. The Italian *Rentes*, as ordinarily quoted, are somewhat misleading. They are 5 per cent securities nominally, but holders are taxed to the extent of 20 per cent, and this may be regarded as a permanency, and indeed holders of the old 5 per cents were given the option of transferring into new 4 per cent *Rentes* free of all taxation, present or future. Thus Italians must be regarded as a permanent 4 per cent issue. There is also a guaranteed issue, that of the Maremmana railway, which is only of small amount, and although

nominally 5 per cent, really receives only $4\frac{1}{4}$ per cent. Another small security, that of the Irrigation Canal Company, is also Government guaranteed, and interest is likewise reduced by taxation, in this case to rather more than 5 per cent. For those who are prepared to risk the political and financial threatenings always to be detected in Italy, the yield on Italian securities is rather better than that on most other European states. Spanish bonds are in much the same category, but whatever the Government may do in the future in the way of developing Spanish resources, they are decidedly more speculative than Italians, and here too the 4 per cent interest on the bonds has been taxed down to $3\frac{1}{2}$ per cent, the other $\frac{1}{2}$ per cent being applied to redemption. Purchasers have to be careful that they receive bonds that have been stamped as belonging to foreign holders. Such bonds are called "sealed bonds." Any others receive their interest in silver, and there would, of course, be serious loss on exchange.

We come to a decidedly more speculative group when we discuss the loans of the Balkan peninsula. Some there are to which little objection can be raised. Thus the Greek guaranteed loan is secured by the signatory Powers. So, among the Turkish issues, there are loans that are under the control of the Council of Administration, an international body representative of the bondholders, who receive certain definite revenues, which they apportion for interest and sinking fund. Their loans were quoted

in the lists as "A," "B," "C," and "D," but the whole of the first has been redeemed. At present these loans receive 1 per cent each. The arrangement is that the revenue goes four-fifths to the interest and the remaining fifth to redemption. Of that fifth $\frac{1}{4}$ is applied to "B," the next $\frac{1}{4}$ to "C," and the next to "D," and the remainder is divided equally. Arrangements for redemption are likely to be by purchase for some time to come, and it is expected that the revenues will permit of an increase of interest at an early date. Naturally, as these securities are redeemed, the amount available for interest on the remainder will be increased. In addition to these loans we have certain others specially secured. The first is the guaranteed loan referred to in the last chapter. The 4 per cent Defence loan is secured on the Egyptian tribute, and there is a 5 per cent loan secured on the Customs and other issues. These issues, however, are more of the steady-going order, and for those who like to buy on the chance of appreciable increase in capital value later, the attractions of the "B," "C," and "D" series are superior. A conversion scheme is now being suggested for the latter. Bulgarians, and other securities of the Balkan states, are, of course, very highly speculative, largely from political, but also, of course, from economic and financial causes. Greek securities, too, are very unsatisfactory, and the Greek government has shown no particular degree of honesty in the way it has regarded its obliga-

tions. The fortunes of the country depend largely upon the currant crops, and a bad crop leads to serious difficulties for the Government. With the exception of the guaranteed loan, the Greek issues must be regarded as entirely of the gambling order, and in that category also we must place another minor European security, that of the Portuguese government.

British investors ought to take a special interest in Egyptian securities. Here we have to take two facts into consideration: one that the country has improved enormously under British control, and secondly, that British control is not likely to be relaxed. There is apparently no good reason that can be advanced against the purchase of Egyptian securities that could not be advanced against Indian securities, and as the return is really very fair as times go, the British investor may look to the group with some confidence. The loans quoted in the official list are the Unified, the Pref. Reduced, the 3½ per cent inscribed stock, the State Domains loan, and the Daira Sanieh. The last named 4 per cent loan is secured on the revenue of certain estates, as well as being a charge on the ordinary revenues. Then there is the State Domains loan, a 4¼ per cent loan, secured on certain properties of the late Khedive, and on the general revenues. Both are liable to drawings, and so must not be bought much over "par," and as the amounts of the loans are small, they are less readily marketable at close prices than some others, and so should be

bought to hold over a fair period. With these reservations they are excellent investments. Then we have the 4 per cent Unified loan, on which drawings are at present suspended, and which is a prior charge on the revenues of the country after the guaranteed and preference issues. These bonds are of greater amount and more easily marketable. There is also a 3½ per cent preference issue, which is well worth the attention of investors. With the Guaranteed loan we dealt in an earlier chapter.

The Far East is attracting increasing interest among investors, and certainly for those who are prepared to take moderate risks, there is good reason for buying several securities connected therewith. For instance, the Imperial Maritime Customs, an international body in China which controls the customs revenue of the Treaty ports, is allowed to apply the receipts to the services of certain specially secured loans and their redemption before passing on the remainder to the Government. That right is inviolable, and it is a matter of international agreement. So the security is really considerably better than in many more prominent issues. The loans so secured are, in order of claim, the 7 per cent silver loan (holders of which are paid in the silver currency, the amount being remitted at the current exchange, so that it is liable to rather marked fluctuations); the 6 per cent bonds issued by the Hong-Kong and Shanghai bank, and known commonly as the 1895 6 per cent gold loan, the interest, as with the junior securities, being payable

in gold; the 1896 6 per cent Chartered loan; a small 4 per cent French loan, with the contingent guarantee of the Russian Government; the 5 per cent (1896) loan; and the 4½ per cent gold loan. There is also a 5 per cent railway loan, but this is merely secured on certain railway revenues. In the case of the 6 per cent loans we have to take into consideration the fact that annual drawings have commenced, and that in fifteen years' time they will be paid off at "par." Purchasers above "par" should note this.

There are many people who fear that Japan has gone ahead a great deal too fast, and has been prodigal in her borrowings. At present, however, there seems to be no reason to fear that her liabilities will not be met. There is continually an expression of anxiety lest a collapse of the gold standard, which she assumed in a hurry, may precipitate commercial crises, and the pessimists base their views of the possibility of a collapse on the usually adverse trade balance, the imports being greater than the exports for several years recently. Indeed, recently the banking crisis was due to these causes and lack of capital. The finances of the country have been well handled hitherto, but the high interest rate is not more than the risks warrant, and as there is no vestige of European control, and always the danger of a quarrel with Russia, investors who fancy Japanese bonds have plenty to consider before buying.

Brazilian government issues are among the speculative favourites of the Paris bourse, and

are largely held here. Like all South American countries, Brazil has had its misfortunes and revolutions, and has got into an egregious financial muddle. So that Brazilian securities are not for all. Brazil has not been paying the interest on her bonds in cash, but in funding bonds which, of course, have a market value, but resumption of cash payments commence with July 1901. The prospects of the country are improving, and the present president inspires confidence. Trade had been bad for some time, and there have been banking crises. But the country is rich, and with more capital and better labour supplies, Brazil should do well. The danger, to the mind of the writer, is that Brazil seems disposed to shoulder more risks, in the way of buying out railways on which she at present guarantees interest, than she can afford. Moreover, taxation is very heavy, and owing to the peculiarities of local government, very inequitably imposed. It will be seen, therefore, that the bonds are decidedly speculative.

Chili is very fortunate in a light direct taxation, deriving large sums from the nitrate deposits and mining rights. The country may be considered rich, and perhaps the best ruled and the best managed financially of the South American countries. Nobody, however, would regard any South American investment as without some decided risk, but Chilian bonds are as sound as any, and certainly offer a high yield. The country is on a gold basis, and the debt is comparatively small. Sinking

fund operations are in progress. For raising the general yield an investor of means, who does not object to reasonable speculative risk, may buy Chilian bonds with a fair amount of confidence.

Peruvian financial honesty is not of a very high order, but Peru got rid of its old direct obligations to the Peruvian Corporation, which has also an important railway system to look after. Peruvian corporation issues are very speculative, but if trade is prosperous the prior securities are often popular as speculative investment holdings.

Argentina has been spoiled by the European investor more than any South American state. On that fatal incentive, the "possibilities" of the country, money was flung at her by capitalists, and being human she took all she could get. She points a moral. A necessary result of this reckless discounting of the future was financial disaster. Even now, after years of recovery, her financial position is by no means sound, and reckless administration characterises her, as it characterises most of the Spanish-American republics. A new scheme for consolidating the chief loans, notably the 1886 and the Funding loan, is ready on the first favourable opportunity, and until that scheme is forthcoming most of the Argentine Government securities offer incentives to the speculative investor. What will happen afterwards depends upon the extent of the new borrowings of the Government. In addition to the two loans noted, the chief in which interest is taken in this country are the

4 per cent Recission bonds, originally granted to the railways in place of guarantees, the Buenos Ayres Waterworks loan, also a Government loan, and the External or gold loan. Argentine issues offer a high yield, but no higher than the circumstances warrant. In addition there are the Cedulas. These are really the amounts paid on mortgage to borrowers on real property, the payment being in bonds instead of cash. The improvement in the value of property has aided the security. The interest is in most cases paid in currency, so that the Argentine gold premium has to be considered. Thus, if the gold premium is 150 per cent, one sovereign equals two and one-half times its nominal value in dollars. Therefore we have to divide by that amount to get the parity value of the security. Dividing 100 by $2\frac{1}{2}$ we get 40 as a price at which the Cedulas would return their nominal interest of 7 per cent, if the gold premium were 150. Nowhere was the dishonesty of some of these South American countries, and the dangers consequent thereon to investors, shown more than in the disgraceful default of some of the municipalities of Argentine in respect to loans. Heavy losses have been made on these issues, but the careful investor would, of course, avoid all such. Better throw money into the gutter than trust most of them.

In addition to the Argentine Government Cedulas there are others known as Provincial Cedulas, or Cedulas of the province of Buenos

Ayres, which were issued by the Hypothecary bank of the province. These Cedulas are decidedly more speculative and have less security than the National or Government Cedulas. But all alike were really bonds issued to mortgagors in place of cash, and the bonds were to be sold for cash by these mortgagors, and were never intended for foreign acquisition. That we received them at all is a fact for which we have to thank our financial houses, who discovered how greedy we were and profited by the discovery.

The position of Uruguay is very uncertain. Its loans, as the leading loans of Argentine, are secured on the customs dues, but the bondholders have suffered under two disadvantages. The loan issues were badly placed, and there was for a long time much stock awaiting liquidation, and in the second place there have been continuous fears as to default, for in spite of confidence felt in the president, Uruguay's borrowings have been excessive for her size, and the country has not made the progress that was hoped for. With most of the other South or Central American states the investor with a reasonable amount of wits would have nothing to do. They have proved themselves rogues, and the investor who would lend to Venezuela, Costa Rica, Guatemala, or such countries, is past praying for. The only good they do is to furnish some occupation for the Council of Foreign Bondholders, an association which issues reports from time to time detailing the results of its friendly letters of protest

against more or less ancient defaults. Mexico is a country that can testify how much the credit of a Spanish-American state may be developed under wise government, when the resources of the country are being considered seriously, and the best methods taken for attracting capital. The loans of the Mexican Government are, of course, speculative, as all the group must be, if only because the countries are "new," and therefore subject to many dangers, but the loans rank among the best of the group.

CHAPTER XVII

MINING OPERATIONS—WHAT THEY ARE, WHAT IS DONE, AND WHY

WHEN the average man receives a "tip" to buy mining shares and is willing to take it, he is often foolish enough to buy the shares without any further inquiry, and trust to luck. He sees in his financial newspaper some reference to the "banket formation" in West Africa, and buys because he believes that the "banket formation" is an excellent thing. What it means he does not know. He sees references to the uncertainties of white quartz mining, to the oxidised ore being exhausted, and the sulphides, with all their difficulties substituted, and he is content to believe that everything is in a bad way. It is all Dutch to him. So, those mysterious references to true fissure veins, to stopes and winzes, chlorination and cyanide plant, all fall very flat. He buys and loses his money because he will not learn that, in mining speculation as elsewhere, the men who make the money are the men who go for merits and buy when shares are

cheap, and try to understand what they are doing. But that necessitates learning something of mining and not trusting merely to the casual gossip of the stock markets. It is ridiculous to suppose, even were the writer competent to instruct, which he is not, that the mysteries of scientific mining could be learned in a single short chapter. But we may look at a few elementary facts that are necessary to be known before we make any attempt to study mining work further, and, in fact, are necessary to be known in order to understand even our newspaper articles.

In the old days free milling ore was the ore that was looked for and worked. Anything that was refractory was disregarded. Free milling gold ore is the mineral substance that contains gold in a "free" form, so that the metal can be easily separated from the *gangue* or waste and amalgamated. Where there are certain combinations the gold becomes difficult to extract by the ordinary methods, and is said to be refractory. In the old days they did not trouble much about these refractory ores, for the methods of extraction were crude and expensive. Nor did they often trouble about decidedly *low-grade ore, i.e.* where the proportion of gold was small. Thus very often the fact that the ancients worked a certain area and took out the rich or free-milling ore is a very good recommendation, for by the cheaper and effective modern processes it is easy to recover large amounts of gold from ores that had been abandoned. If we

had to depend upon free milling ores alone, or even those of high grade only, we should to-day not have very much gold mining in the world. Once we get down to the water level, we often begin to find serious difficulties in treatment of ores.

Placer deposits are those deposits of gold which have been washed down usually from the veins or lodes in the reefs on higher ground. This loose gold is held in the sand or other deposits of river beds. These deposits of gravel and earths containing the gold are also said to be "alluvial deposits." Sometimes they are of considerable depth. The quartz from which the gold is usually derived is a kind of rock-crystal, and in this the gold runs in veins. We need not trouble here with what the scientists tell us as to the origin of gold or these various gold-bearing substances, although that is interesting enough. We can say, however, that in the case of the Witwatersrand, the great gold-bearing area of the Transvaal, we have not the quartz, but a conglomerate of quartz pebbles and sand and other matter, the gold being contained in this binding material and not in the pebbles. This formation is called "banket," is easily worked and reliable. Sometimes, as elsewhere, it is interrupted in places by bodies of foreign matter or rock, which are not gold-bearing, and these will be called *dykes* or "*faults.*" Here, as elsewhere, on established fields the work is nearly all below the water level, and the ore is not "free milling." The free milling ores may give very good results for a

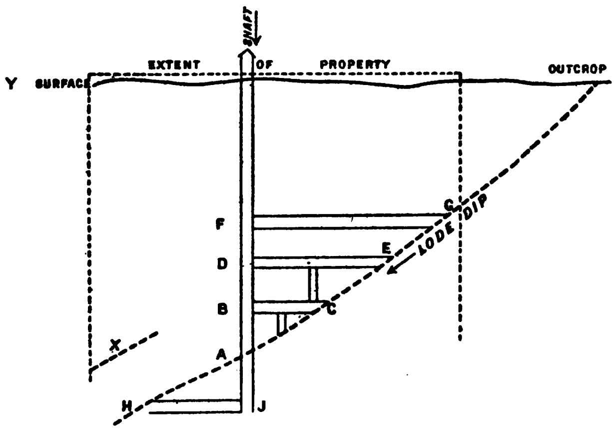
time, but if investors in mining shares would remember that sooner or later the workings must go to a depth at which the usual difficulties of extraction are encountered, they would not lose so much money.

Different Kinds of Mining.—In a few words we may perhaps be able to gather the general features of mining. If our gold-bearing property consists of gravel deposits, as before described, the process of getting at the gold will often be by "*hydraulicking*," if there is water enough. The gold-bearing gravel, which is naturally richer towards the bottom of the deposits, is literally washed out of its place by water forced down upon it under great pressure. If the payable levels are situated too low to permit of the gravels being washed away entirely, and only the rich portions are taken out and treated, then we are said to be *drift-mining.* Where we are hydraulicking, the gravels are washed away under the great pressure of the water into sluices, and finally the gold is extracted by the ordinary amalgamation methods by means of quicksilver. Unhappily all processes are not so simple.

When reference is made to operations in mining reports we find stopes, and winzes, and adits, and other mysterious features of a mine duly mentioned. Some of us, when we wish to invest or speculate in mining shares, have to begin at the beginning and find out what all these references mean. Now it may be that our mine is beneath a hill, and that

either for the purpose of getting at the lode, or for ventilation or drainage, or any other cause, we tunnel into the hillside, perhaps horizontally, and so get at a portion of the mine. That tunnelling level would be an *adit*. It is very rarely indeed that the ore can be cut out of the hillside much as we should quarry. Where this is the case we speak of "open workings." If we sink down from the surface to find the ore we form a *shaft*. On the way down a horizontal passage may be made, say at 100 feet depth. We shall see that described in our reports as the "100-ft. level." They may go on sinking, and another level will be made perhaps at 150 feet, another at 200 feet, and so on. Sometimes this sinking will take place from an adit, or from a tunnel. By and by the miners will strike the *lode*, which is said to have *walls*. This lode, if there is one, which is not a necessary result of the flotation of a mining company, is the vein containing the mineral matter, and the boundaries of the lode are its *walls*. On the lower side we shall find the *foot-wall*. On the upper side the boundary of this substance containing the mineral matter is called the *hanging-wall*. To the sides are the *side-walls*. The lode is more or less clearly defined, and the miners will proceed to work upon its course. The ore will be "stoped" out, being broken down maybe from above, which will be called "overhand" stoping. When the miners have a section of the ore-body at which they are working off the levels, the section will be described as a

"*stope.*" Sometimes it will be necessary to make a little shaft from one level to another, apart from the main shafts. These little shafts are described as *winzes.* Perhaps the following diagram will give a very rough idea of what we have to understand about the workings of a mine :—



If the levels at BDF and J are outside the lode formation, then these levels which are driven from the points named in order to intersect the reef are said to be *cross-cuts.* Now it may be that when our mine manager drives his level at J he fails to find the reef where he should near H. There is then a *fault* of some kind. It may be that a vein of rock has been thrown in by volcanic action, casting the reef out of place. It may be thrown upwards, and in that case it will be said that there has been an

"upthrow" of the reef, and on developing further it may be discovered on the line marked X. If thrown downwards it would be a *downthrow*. Sometimes the interruption may be so serious that the lode is lost altogether, and perhaps the shareholders of the property marked Y, into which the reef was supposed to dip, will have to whistle for the money they have spent in sinking a shaft to intersect that lode in their property.

Now, continuing our simple explanation, we see how the property is situated. All the earth that falls between the dotted lines belong to it. The shaft is sunk as marked, and is said to intersect the *reef*, or lode, at the point A. We see how the lode *dips*, away from the surface, in this case where it *outcrops*. The sharper the dip of the lode, the more of the gold-bearing area there will be in the property. Having struck the reef at A, the mine manager may decide to drive a level from B intersecting the lode near C. He may drive another level at D intersecting the reef near E, and another at F to intersect in G. Let us say that the level at F is 200 feet deep, at D 250 feet, and at B 300 feet; in our mine reports we shall then find them so referred to. At J, the 400 foot level, he drives another level perhaps to intersect the reef at H. Now, from the D level to the B level he drops a little shaft, and another from the B level to the lode, which are called winzes, as above described, and we have marked these on our diagram. It may be that when our mine manager is at work on the

lode which he strikes somewhere near G, he finds a certain amount of it above him which he elects to stope out. He may perhaps refer to that portion above him as the *back of the lode.* Perhaps the ore which he there takes out is oxidised, or free milling, giving little difficulty and maybe good results. If our mine is in Western Australia, under ordinary Western Australian management methods, depend upon it that our directors will have that portion worked for all it is worth, especially if they know that below the results will not be so satisfactory. They will be able to put up the share values and sell at big profits. Maybe that our mine manager sinks to D, cross-cuts to E, and, getting on the lode, finds that it contains a "sulphide ore," which, owing to its composition, is not free milling and involves expensive treatment. It may even be that these sulphides are richer than the oxidised ores above. One day there is a great parade of rich "tellurides" in these lower levels. The "tellurides" are a mixture of metals which very often contain a large proportion of gold, but owing to their composition have to be very carefully treated, and frequently the telluride patches will be taken out and treated separately. Given enough of these tellurides, returning say 6 ounces to the ton, what a delightful show we can make in our monthly mining returns! We may put the shares up where we please, if we are directors, unless some wretched "bears" manage to discover that we are taking out all the rich patches, picking the eyes out of the

mine as it is called. One day we have finished all the tellurides, the truth is discovered, and down goes the price of the shares. Then we have to set to work on our ordinary sulphides and become honest men. To treat these sulphides is often difficult, and there are many processes, with slight alterations, to secure the best results. It would be outside our scope to endeavour to explain processes at all fully here.

Before glancing at the methods of treating the gold ores, there are one or two minor features to note. We may notice "*feeders*" being mentioned in the report of workings. By such an expression we mean veins of ore which connect with the main lode or ore body, or the little veins of ore which branch off from the main body may be referred to as *spurs* or *branches*. Sometimes a vein of ore will cross the main body, in which case we call the former a counter-lode. Or the gold, instead of being spread fairly over the lode, will occur richly in masses of ore. Then the mine is said to be *pockety*, and possibly the lode may be too poor to work in most places. If our lode separates two different geological formations, it is said to be a *contact-vein*. The barren rock away from the lode is described technically as the "country rock," and when we hear that in the development of a lode the vein is lost in the "country rock" or "dead ground," it is naturally unpleasant news.

How Ores are Treated.—We will now glance very briefly at the chief methods of treatment.

Taking the ore, we can, by simply breaking it up in a mill, obtain the free gold from it by amalgamating through the medium of quicksilver or other ways. The ore is usually broken up into small pieces by a rock-breaking machine, and is thus prepared for the *battery*. This is a piece of machinery consisting of very heavy iron stamps, usually five in number, which descend upon the ore in an oblong box, called a *mortar*. The ore is there pounded into a fine substance. Into the mortar water flows, and is driven out through a sieve by the action of the stamps, with most of the worthless material and some of the ore in the form of slime. With it, of course, escapes some of the gold, some adheres to amalgamated plates, over which the slime flows, and much of it sinking is, under the treatment of quicksilver, amalgamated at the bottom of the mortar. For the slimes that flow away other methods of treatment are ready, for the gold must not be lost. The slimes flow into *concentrators*, and there the richer portion is concentrated, and the poorer removed. On the amalgamated copper plates outside the battery, free gold is caught if the plates are bright, and after treatment can be scraped off. It is well to remember that new mills and new amalgamated plates do not give such good results as they will after they have been running some time, owing to crevices getting filled up and the copper plates absorbing gold and not working properly. Consequently, if the results of the early crushings are a

little below expectation, there is not necessarily cause for disappointments.

That portion of the gold which is not "free" will be got at in the process of "concentration," whereby the ore will be separated from the waste substance, and all other metallic substances removed separately. In the latter case the ores are said to be complex, and in the ordinary way much gold would be lost through being contained in copper pyrites and other matter from which it would be inseparable by the ordinary processes. In fact, in some cases where we have ores which are practically pyritic, it would be impossible to get much, if any, gold by the ordinary process, and in that event there is much modification of the crushing processes mentioned. But by various processes such as roasting and chlorination the ore is eventually won.

Very briefly and imperfectly, but sufficient for the purpose, which is merely to show how complex mining science is and direct the mining investor to the principal features, we have dealt with what is termed the "wet crushing" process. A very large amount of water is required for the process, and it is not always available; and for other reasons also, as being less wasteful with some classes of ore, "dry-crushing" is resorted to. The ore is ground fine, worked up into a pulp with sufficient water, the quicksilver is added, and so the free gold is obtained. *Tailings*, or the residue which has been treated in the mill, and after amalgamation still

contains gold, are treated by the cyanide process on the Witwatersrand fields and elsewhere—one of the most important chemical developments of modern times in the mining world, whereby much gold is recovered. It would be beyond the scope of this book to endeavour to describe the process in detail.

Reference has been made in sketching the processes employed to the amalgamation of the gold by the action of the quicksilver. In order to obtain the gold the quicksilver will have to be driven off, and this is done in a retort or iron furnace by the action of heat, the gold in the amalgam being left.

CHAPTER XVIII

KAFFIR MINING SHARES

ALTHOUGH the war has greatly interfered with the mining industry of the Witwatersrand, it is likely to remain *the* mining market with the British public for many years to come. We need only refer briefly to the history of the famous gold-mining developments of the Rand, as the stretch of goldfields near Johannesburg is called. The Rand industry is only fifteen years old, but it is the most important branch of mining enterprise in the world. To what depth the gold-bearing formation may be worked it is impossible as yet to say, and the Transvaal war interfered with the industry at an unfortunate moment for discovering possibilities in this respect; but it is certain that the gold-bearing reefs continue rich as they dip, and they have, moreover, been proved to be singularly reliable in nature. The formation of the reefs of the Rand is what is known as "banket," which has been already defined. The reefs dip rather sharply at first, at an angle of about 30° as a

rule, but at greater depth they show a tendency to flatten.

The most valuable mines are those on what is called the Main Reef, and these may be roughly divided into two classes: those in which the formation outcrops, and those on which the reef is only struck at a considerable depth—the "deep-level" mines. The latter may again be classified, and later we shall refer to them in more detail. It is sufficient to say here that the reef of the deep levels is that of the outcrop mines, only at greater depth, the average dip or declination of the reef being, as a rule, 30° to the south. But as the greater depth is attained the declination is less sharp. It is thought that mining is practicable to a depth of 10,000 feet, and that there are no geological disturbances that will cause particular trouble. The actual extent of the Rand area is not yet defined. In addition to the Main Reef mines we must take into consideration certain other reefs, such as the Black Reef, the Kimberley Reef, and others; but among these outsiders there are few of any proved value, except so far as the Kimberley Reef claims at great depth may be concerned.

It is well when considering the advisability of purchasing Rand mining shares to note not only the locality, but which is the financial group to which the shares belong, and examine carefully the data which is readily forthcoming as a rule as to the life of the mine on a given divided basis, and note whether there are debentures ranking in front

of the shares. Mining on the Rand, so far as many of these Main Reef companies is concerned, is as safe as mining can be anywhere, and it is possible to make calculations as to the future which can be relied upon with some confidence. That being the case, it is ridiculous to buy shares when wild excitement pushes prices up to a prohibitive level. That is the time when a holder should sell, and he should show his greed by only buying, as we have said, when 8 or 10 per cent at least is shown on his capital after allowances are made for redemption. We will now give a list of the chief and best known Main Reef mines, marking with an asterisk (*) those which are more than merely speculative undertakings, stating the financial group which controls them, showing the stamps that are erected on the property, the issued capital,[1] and the life of the mine, with the present stamping capacity on the average of the estimates of the various authorities on the subject:—

[1] The following are the chief debenture issues of Rand mining companies:—Comet, about £175,000; Consolidated Main Reef, £240,000; Durban Roodepoort Deep, about £180,000; French Rand, £200,000; Glencairn, £140,000; Jupiter, £400,000; Kleinfontein, £100,000; Knight's Deep, £400,000; Lancaster, £180,000; Luipaard's Vlei, £150,000; Princess, £60,000; Roodepoort Central Deep, £150,000; Simmer and Jack East, £500,000; South Rose Deep, £300,000; Vogelstruis Deep, £122,500; West Rand Deep, £160,000; Witwatersrand Deep, £200,000. Most of the rights of conversion into shares have expired.

KAFFIR MINING SHARES

	Controlling Group.	Stamps Running.	Capital Issued.	Probable Life in Years.
			£	
Angelo . . .	Farrar . .	110	275,000	17
Apex . . .	Farrar . .	...	150,000	?
Aurora West . .	Albu . .	40	250,000	?
Balmoral . . .	Barnato . .	60	220,000	?
*City and Suburban . (£4 share)	...	160	1,360,000	19
Comet . . .	Farrar . .	100	225,000	...
Consolidated Main Reef	Neumann . .	80	800,000	...
*Crown Reef . .	Wernher Beit .	120	120,000	6
Driefontein . .	Farrar . .	110	275,000	20
*Durban Roodepoort .	...	80	135,000	7
*Ferreira . . .	Wernher Beit .	80	90,000	9
*Geldenhuis Estate .	Wernher Beit .	120	200,000	7
Ginsberg . . .	Barnato . .	50	160,000	8
*Glencairn . . .	Barnato . .	120	500,000	20
New Goch. . . .	Albu . .	60	300,000	25
*Heriot . . .	Natal . .	70	115,000	14
*Henry Nourse . .	Neumann . .	60	125,000	12
*Jubilee . . .	Natal . .	50	50,000	7½
*Jumpers . . .	Wernher Beit .	100	100,000	6
Kleinfontein . .	Farrar . .	110	275,000	25
*Langlaagte Estate .	Robinson . .	200	470,000	16
*May Consolidate .	Farrar . .	100	290,000	7
*Meyer and Charlton .	Albu . .	80	100,000	10
Modderfontein . . (£4 share)	Neumann . .	60	1,000,000	?
*Primrose (New) . .	Barnato . .	160	300,000	12
Princess Estate . .	Goerz . .	50	165,000	20
*Robinson (£5 share) .	...	140	2,750,000	13
*Salisbury . . .	...	50	100,000	8
*Simmer and Jack . (£5 share)	Cons. Goldfields	280	5,000,000	20
Spes Bona . . .	Barnato . .	40	150,000	?
*Treasury (£4 share) .	Neumann . .	60	540,000	12
Van Ryn . . .	Albu . .	125	400,000	?
*Wemmer . . .	Eckstein . .	60	80,000	6
*Wolhuter (£4 share) .	Neumann . .	100	215,000	40

The Apex is a busy coal producer, and its gold-bearing reefs have been little developed as yet. They are of low grade.

It will be noted that the very high prices at which certain shares stand, notably Ferreira and Crown Reef, are fully explained by the relative smallness of the capital. The mines of the Main Reef series that are most reliable have been indicated by an asterisk, and in every case, looking at the intrinsic worth of the mine, allowing for redemption and a dividend yield of 8 per cent, the mining shares so indicated were undervalued in the market in the early weeks of 1901.

Next to the Main Reef series of mines, the attention of investors should be directed to the deep levels. Although scoffed at when first suggested, the claims of the deep levels to notice have been established. The only question now is as to what depth is the greatest at which the reefs can be worked at a profit. Claim for claim, the deep-level area is of equal richness with its outcrop area, and is perhaps even more reliable. There are two well-defined rows of these deep-level mines, and a third row is being undertaken, and gold-mining at 5000 feet or more is regarded as feasible. In buying deep-level shares, the public have first to consider the nature of the outcrop mines. As a rule, if that is satisfactory, the deep level will be quite as good or better, although, of course, a large capital is necessary owing to the enormous outlay before the mine can be opened up and become productive. Fortunately all the best deep-level properties are in good hands, so that there need be little fear as to bad management.

The most important of the deep levels are the producers of the first row below the outcrop mines (the reef dipping southwards). The general depth of these mines runs to above 2000 feet. The most important are the Crown Deep, Robinson Central Deep, Ferreira Deep, Village Main Reef (below the Salisbury, Jubilee, and City and Surburban), Nourse Deep, Jumpers Deep, Geldenhuis Deep, Rose Deep (below the Primrose), and the Glen Deep (below the May and Glencairn). These are producing mines, with the exception of the Robinson Central Deep, now awaiting machinery, and with the exceptions stated, they are below the great Main Reef properties whose name they bear, and extend from west to east along the best portion of the Rand. Below this first row of deep levels we have the second row running to a depth, we may say roughly, varying from 2000 to 4000 feet. The best known of these mines are the Robinson Deep (below the Robinson Central, and having the dip of that and the Ferreira Deep Reef), the Village Deep (below the Village Main Reef), the South Nourse (below the Nourse Deep), the Jupiter (below Jumpers Deep), Simmer and Jack West (below Geldenhuis Deep), South Geldenhuis Estate (below Simmer and Jack), South Rose Deep (below Simmer and Jack and Rose Deep), and Simmer and Jack East (below Rose Deep and Glen Deep). Of these the Robinson Deep was crushing when the war interrupted, and on the Simmer and Jack East and the South Rose Deep the reefs have been located,

development work being done on the latter, while on the former one shaft is nearly down to the level. Such shares accordingly furnish good opportunities on any set-back to investors blessed with patience. We may even turn attention to companies formed to work claims on the third row of the levels, below the rich piece of Main Reef to which we have alluded. Such companies are the South Village Deep, the Rand Mines Deep, and between these and the second row there are hopeful properties such as the Rand Victoria, which should have the dip of the Simmer and Jack from the South Geldenhuis property. Here, then, we have the pick of the Rand, although, of course, the danger of broken ground in the deep levels hitherto undeveloped must not be ignored.

There are other properties that have decided claims to notice. Just to the east of the Glencairn property and still on the Main Reef, the extensive Knight's Witwatersrand property claims attention. Its drawback is a considerable extent of broken ground, but both it and its deep level, known as Knight's Deep (partially below the Glencairn), deserve attention. Just south of Knight's Deep is the Knight Central property.

When we leave the great Main Reef series and look farther afield, the Nigel group in the Heidelberg extension of the Rand claims notice. Here the main characteristic is that the reefs are decidedly thin, and outside a few companies, as, for instance, the Nigel, its deep level, the Nigel

Deep, and below that again the Central Nigel Deep, values are very doubtful. Far away to the east of the Rand lies the Barberton district, on the borders of Swaziland. The formation is different from the Rand, extremely untrustworthy, and the only mine of any note is the Sheba. Another district is that of Klerksdorp, to the south-west of the Rand, near the Orange Free State. The mines of this district are all of very low-grade and mostly worthless. The Eastleigh and Afrikander are the most notable, but there is little need for mining investors to worry about them when they can do so much better on the Rand.

There are many favourite shares in the South African group which are of the nature of finance and development companies. Chief among these are the Rand Mines, which has mining claims hitherto unfloated, and enormous share interests in deep-level mines, spread over many of the best companies, many of which entered the stage of important dividend payers just before the war. The shares stand at a high price, but the capital is relatively small considering the holdings of the company. Some of the best financiers of the Rand control this company. Then there is the Consolidated Goldfields of South Africa, which has latterly commenced to take an interest in West Africa, and has adopted the bad plan of not stating its assets in detail. It is a more speculative venture than Rand Mines, being more of a company promoting concern, but it is a very good

company of its class. This is a Rhodes company, and interested in Rhodesia to some extent. So far as the Rand is concerned it is mainly connected now with deep levels in which a large amount of capital is locked up, many of which companies are only as yet in the development stage. It has also large holdings among more or less speculative properties. Then there is the East Rand Company, also with a strong financial backing. It is cursed with founders' interests to the extent of a quarter of the net profits once the amount of the capital, or rather less, has been returned to the shareholders. It is chiefly interested in the eastern extensions of the Rand, of which it holds very large sections, and certainly in the future its enormous undeveloped area may cause great speculative interest to be taken. Its chief subsidiaries are the Angelo, Comet, and Driefontein, which are proved payable mines. Practically speaking, the flotations of this company's interests have only recently commenced. The Randfontein is the great parent company of Mr. J. B. Robinson's interests, and has also very considerable possibilities for the future, although its capital is relatively large. Bearing that fact in mind, and the further fact that so much of the company's area is faulty in its formation or has been proved to be not payable, its future is perhaps even more speculative than that of the two companies previously mentioned. The Barnato group control two finance companies —the Barnato Consols and the Johannesburg Con-

solidated Investment Company. Unfortunately the name of Barnato is not altogether pleasant to investors in South Africa, but the latter company does a sound enough business of its kind, advancing money to promising mining enterprises and holding large interests in various companies, as well as owning a considerable amount of Johannesburg property. The Barnato Consolidated Company is more speculative, but is largely interested in numerous companies, the merits of which are not yet assured in most cases. These, then, are the great finance companies of South Africa, and their merits may be taken to rank much in the order in which we have discussed them.

A subject concerning which we are likely to hear more during the next few years is that of the *bewaarplaatsen* rights. These rights have become a valuable asset of the British Government, for they were claimed previously by the Government of the Transvaal, although the mining companies continually petitioned for some kind of recognition in the matter. The origin of these disputes was simple. They resulted from deep-level mining, which was unthought of in the old days. The mining companies had certain claims for the erection of machinery, or the dumping of "tailings," or other rights, and when deep-level mining was mooted, many of these claims were of great value at depth. Whose were they for mining purposes? The Government not unnaturally refused to repudiate their own claim, and it became entirely a

question of terms, for they are of great value to the mines on the reef that dips into them, and they will doubtless be only too willing to acquire them on fair terms, while the Government should also net a handsome sum. The full "mining rights," as opposed to surface rights, had another term, "*bezitrecht*," applied to them on the Rand by the Transvaal Government. Thus, by "*bezitrecht*" we mean the mining rights of the *bewaarplaatsen*.

Diamond Mines.—Diamond mining is a very close corporation, and the prices of diamonds are quite fictitious, being arranged by the leading producers with a view to the output. The power of the De Beers Company is very great, and in working relationship with a few leading concerns, such as the New Jagersfontein, the market is kept well in hand, with profitable results to the shareholders. But, as a rule, the minor diamond mining shares are very highly speculative.

CHAPTER XIX

WESTRALIAN, INDIAN, AND RHODESIAN MINES

WE are all greedy, fortunately for the company promoter. And where we know that there is gold, and sometimes only where we are *told* that there is gold, we are prepared to lend money. Very often we get nothing in return, neither interest nor capital, but we ought not to grumble, for the company promoter must make a living, and we are helping the joint-stock principle, which has been blessed by the Lord Chancellor. Feel thankful, therefore, and pay up.

The only object of the few lines preceding is to remind the investor of his duty towards the company promoter. For when he thinks over the record of West Australian mining he might otherwise feel rather quarrelsome. Sharp practice? Of course there has been sharp practice. Juggling with shares, forcing the production of mines, "picking their eyes out," to use the expressive mining term, disgraceful deception, in which mine managers and directors seem to have taken part,

unwarranted inflation of mining share values—we have had them all. The proper reward for many of those connected with Westralian mining is board and lodging in one of His Majesty's jails. However, the fact remains that Western Australia is a great gold-producing country, and is not ruined yet in spite of the dishonest methods employed. It is well to be cautious. But when the worst has been said, Westralia is only suffering from the ills that attended the Witwatersrand in its early days.

The most famous mining district of Western Australia is that of Hannan's at Kalgoorlie. It is a small area, so far as its payable gold-producing capacities are concerned, but it is rich. The smallness of the profitable area is due to the fact that the dip of the lodes is very sharp—in fact nearly vertical. On the Rand, we have seen, it is roughly a dip of one foot in rather more than one and a half, in West Africa it is a dip of one foot in one, at Hannan's it is often nearly vertical. The ore formation is quite of a novel nature. The difficulties with which the mines have had to contend have been many, among the chief of which has been the scarcity of water, but the Government has undertaken a big water scheme to supply the fields. For various depths the mines have been working oxidised ore, capable of easy treatment. But most of the mines have practically worked out this ore, and now the difficulty of the treatment of the "sulphide ores" is the chief question facing the miners. These sulphide ores, owing to their com-

position, are difficult to treat economically and effectively, so that, although they are rich, this is a great drawback. Various processes are being tried, and varying degrees of success are claimed. There is no doubt now that a very high percentage indeed of the gold can be extracted, and the only trouble is the question of expense. Unfortunately, it is difficult to get at the truth of the matter in this as in nearly everything else in Western Australia. But whether success meets the efforts of the mining engineers in the very near future, it can only be a question of months before adjustments and improvements remove the chief difficulties in the treatment of these sulphide ores. The sulphide ores, the reader may be reminded, contain various base metals and substances which render the extraction of the gold difficult owing to chemical action.

The great desire of those who control most of the Western Australian mining properties seems to be, and has been, not to work the mines on a commercial basis, as the best of the Rand and Indian mines are worked, but to force share values up as high as possible. One result has been that big financial operators, who know something of intrinsic values and are none too scrupulous, have endeavoured to make profits by selling "bears" of the leading shares, have organised an extensive spy system in the colony, and have thus given rise to a severe warfare in the stock markets, through which the public have lost much money. It is impossible

to blame the "bears," for had it not been for the gross manipulation of the mining markets, they would never have existed in such numbers. The chief mines of the Hannan's field are the Great Boulder, the Ivanhoe, Golden Horseshoe, and the Great Boulder Perseverance, the Lake View, Associated, and Hannan's Brownhill, some of which have been somewhat under a cloud, and are suspected of having been unduly worked out, so far as rich ore is concerned. Then there are the Kalgurli, a smaller mine than some of the others, but a promising mine; the North and South Kalgurli, the latter of which is well situated; Great Boulder Main Reef, Associated Northern Blocks, Chaffers, and others. As regards location, the Lake View, Boulder Perseverance, South Kalgurli, and Hainault, are consecutive on the same reefs; but by the time the last-named property is reached the gold formation is very untrustworthy. On parallel reefs we have the Great Boulder, with Golden Horseshoe and Ivanhoe to the west, all on rich lodes. To the south of the Great Boulder we have the Boulder Main Reef (whose shares, it should be noted, are of 10s. and not £1 par value), which has a patch of the Great Boulder lode, and to the south of the Golden Horseshoe there is Chaffers (with shares of 4s. par value), also of "patchy" possibilities. It is very necessary not to be deluded by mere terminology. On the Rand, for instance, there is the Crown Deep, and, as we might gather, it is the deep level of the famous Crown Reef mine,

and receives its reef. On Hannan's the North Boulder has no connection with the Great Boulder, and has certainly not got its reefs. Promoters are often careless in their notions of terminology.

Intending investors in Western Australian mines cannot be too strongly urged to remember that the conditions on this field are very different from those of the Rand, and mining is far less reliable here. The rich bunch of mines which include the Lake View, Great Boulder, Ivanhoe, Horseshoe, and Boulder Perseverance, were the best patch. Those that adjoin these properties in favourable positions, such as Chaffers, Boulder Main Reef, and others, have very fair speculative chances; and even the best of the mines elsewhere are of the patchy order, of which perhaps the Hannan's Brownhill once proved the most notorious instance. But, of course, a patchy area may encourage the speculator who is hoping for a lucky chance. So long as he realises what he is doing he is, of course, quite at liberty to take his chance, for he may, in such properties as Associated Northern Blocks, Brownhill Extended, Hannan's Oroya, Cosmopolitan, and others, have his reward in fortunate developments and sharp rises in share values. Only, even on Hannan's, the best of the Westralian fields, you have not anything like the certainty that you have, say, in buying sound deep-level shares of the Rand.

Of the outlying Westralian fields it is unnecessary to speak at any length. Coolgardie, the earliest to work, has proved patchy, faulty, and disappointing,

and there are few properties on the field that even promise well as speculations. Moreover, the ore is not so rich as on Hannan's field, and working expenses are high. Perhaps the most hopeful shares at the present time as speculative purchases are Burbank's Birthday Gifts and Bayley's United. Menzies is another district that has proved disappointing, and here too working expenses rule high from the nature of the mining. The Menzies district lies to the north-east of Kalgoorlie. The only mine that has done moderately well has been the Lady Shenton. As a whole, these outside districts are not likely to be very profitable, according to the mining authorities. Before dismissing the subject of Western Australian mining it is necessary to utter a special word of warning against the various finance and development companies, whose methods are being pursued with zest in all new districts, and which, in whatever part of the world they are found, offer very easy ways of losing money very quickly to such of the public as trust them and their directors too long or too implicitly.

Indian Mines.—Some of the best managed gold mines in the world are to be found on the Kolar fields of Mysore, and presently they will have another advantage, for a gigantic scheme for supplying electrical motive power is being mooted. The field is a proof that mining enterprise is very much of the nature of a lottery. In its early days it was abandoned as worthless, and Mysore shares have been as low as a few shillings. Now there are

three or four excellent properties on this little field which may be classed as among the best investment mines. Others are mere gambling risks, and as the speculator cannot have his lottery he must be content with his gamble in mines, which probably from his point of view serves the same purpose.

The Kolar field's great mines are the Champion Reef, Mysore, and Ooregum, and the Nundydroog is proving a satisfactory property. Alternations in reef values are rather sharp, and had these Indian mines been worked on Westralian methods, the results would have been very unsatisfactory. Happily business methods have prevailed, and consequently the first three of these mines, at least, may be regarded as mining investments of as reliable a kind as mining investments can be, and all four mines should have a long life before them. There is a very wide gap existing between these four mines and the remainder of the mining properties of the Kolar field, and at the best the latter can only be looked upon as speculations.

Rhodesian Mines.—Rhodesian mining conditions are entirely different from those of the Witwatersrand. In Rhodesia very ancient gold workings existed, and as is usually the case, where the ancients were able to work out the rich free milling ores satisfactorily, the modern methods have been employed with very satisfactory results on the ores that they were compelled to abandon. Rhodesian mining, too, is quartz mining, although there are reports of "banket" discoveries. Further, the

country is burdened by the claims of the Chartered Company on the mining areas, either in the way of allotments of shares in new companies or otherwise. Then the labour difficulties are serious, but these may disappear if the Rhodesian mines work conjointly with the Rand in the matter. There are two things upon which Rhodesia may be congratulated: the coal supply is likely to be abundant, and the railway facilities good. On the whole, Rhodesian mining should prove cheap mining.

Some of the exploration and finance companies in Rhodesia are absolutely worthless. As elsewhere, the companies that are worth anything usually have their shares standing at somewhat high figures. We may glance first at a few of the chief of the exploration and finance companies and note the companies that are in the various groups, and in which they have a considerable share interest.

The *Bulawayo Exploration Company* is interested chiefly in the Bulawayo and Gwelo districts, and in the latter development work is advanced on two properties—the Shamrock and the Rose of Sharon. The *Bulawayo Syndicate Company* is interested in various town properties, and has large holdings of land and gold claims all over the country, and on several considerable development work has been done. *Crescen's* (*Matabele*) is largely interested in claims in various districts, on which a fair amount of work has been done. Much the same remarks apply to the *Forbes* (*Rhodesia*) and *Lomagunda Development Company*, the latter

chiefly interested in Mashonaland properties. The *Mashonaland Agency* has many claims in both Matabeleland and Mashonaland, and is also interested in the Wankie coal area, one of the most promising of the coal fields of the country. The chief subsidiary ventures of this company are the Nelly and Pioneer, Consolidated Bellingwe, Beatrice, Sabi, Moonie Creek, and Grand Manica companies. The *Matabele Gold Reefs Company* is chiefly interested in Matabeleland, where its holdings are large. Its chief subsidiary companies are the Alice, Geelong, West Nicholson, Eagle-Vulture, Jessie; but there are many more to come. The *Rhodesian Exploration Company* is another important parent company, with a very large area of claims all over Rhodesia. The chief subsidiaries so far, are the Lomagunda Development Company aforesaid, now developing the Ayrshire mine, the Lomagunda Reefs, the Chicago-Gaika, the Gatling Hill, and many others. *Rhodesia, Limited*, is another company with a large number of gold claims in Matabeleland. This company is largely interested in the Gwanda Development Company, the Rice-Hamilton Syndicate, the Criterion and Empress mines, and other concerns. A large number of claims of land and other assets are held by the *Rhodesian Mining and Finance Company*, but development work is not very forward, and the prospects are doubtful. The Rhodesia Goldfields Company is interested largely as an agency and finance company, and more particularly with the Dunraven, Geelong, Bonsor,

Eagle-Vulture, Chicago-Gaika, North Bonsor, and other companies. The V.V. Gwanda Syndicate is also very largely interested in properties in the Gwanda district, and is another company of some promise. There are many other finance and development companies, the *raison d'être* of a large number of which is apparently that it is easy to raise money on the plausible pretexts which this class of company can put forward. Some of the more promising of the remaining companies, but concerning which less information is at present forthcoming as to development work, include the *Exploring Land and Minerals*, *United Rhodesia* (development work mainly composed at present to three mines in the Umfuli district), the *Willoughby Consolidated*, interested in the Surprise, Grand Manica, and other properties, and the *Zambesi Exploring Company*.

The position of the Chartered Company itself will, in spite of its huge capitalisation, naturally attract the attention of the speculator, for it has possibilities of a large revenue from mining licenses, and receives a large block of shares when a company is floated. Whether the shares are to be worth much from the dividend paying point of view depends entirely, of course, on the value of Rhodesia as a gold-producing country.

Among the more important of the mines at present developed we have the Globe and Phœnix, and Chicago-Gaika, in the Sebakwe district; the Selukwe, Bonsor, and Dunraven, in the Selukwe

district, near Gwelo; the Geelong, West Nicholson, Eagle-Vulture, and Anterior, all in the promising Gwanda district; and the Nelly and Pioneer, and Red and White Rose, near Bulawayo, in Matabeleland. These are all regarded as promising properties. But especially when dealing with properties in new districts, which are not thoroughly tested, and are, moreover, quartz properties, that soundest of all maxims of speculators must not be ignored: "Do not put all your eggs in one basket."

CHAPTER XX

WEST AFRICAN AND MISCELLANEOUS MINING GROUPS

West Africans.—Very considerable interest has been taken of late in the West African market, and it is reasonably certain that the market is to have a big future. As usual, the company promoters have been to the front with any number of schemes, —good, bad, and indifferent,—and it is necessary to discriminate carefully here as elsewhere, more especially as the country will be for some time to come almost entirely in the development stage. The actual mines working are very few in number, and the primitive conditions have been against their success. Portions of West Africa have been known as gold producers for centuries, as the name "Gold Coast" implies. With the settlement of the country, and the introduction of railways and improved conditions, it is probable that West Africa will do well, although it is probable also that working expenses will be high. The great thing is to get the railway. From Sekondi on the coast a

line is practically completed to Tarkwa, about forty miles in the interior. Thus one of the chief gold-fields, that of the Wassau district, is tapped. This Wassau region is of great importance, as it is argued that the gold formation found in its main line of reefs is what is known as "banket," *i.e.* the formation of the Rand, and the prospecting companies hope that it will prove as reliable. Beyond, in the interior, we have an important gold belt which stretches, south of Kumassi, eastwards and westwards, at about thirty miles distance. A third gold belt is about fifty miles north of Accra, in the Akim district. Thus we can speak of the Wassau, the Ashanti, and the Akim groups. Transport is a very serious question for the two last named. However, there will be a railway northwards from Accra serving the Akim field, and the Sekondi-Tarkwa railway will be extended to Kumassi, and will serve the Ashanti groups.

The chief companies at present interested in West African mining are of the land and finance order. There is one important group of companies which is virtually under South African control, the directors and backers generally belonging to well-known financial circles. The South-African Gold Trust and the Consolidated Goldfields Company have interests in the new fields, but the special companies to which allusion is made are the West African Gold Trust, the Gold Coast Amalgamated, British Gold Coast, the Gold Coast Agency, the Ashanti Gold Trust, the Fanti Corporation, and

the Fanti Consolidated. These, with the old-established Wassau mine, the Tamsoo, and other concerns, form what is called in the market the "Tarbutt" group, from the name of one of the chief promoters. In the Ashanti districts we have another important group forming what is known in the market as the Maple-Gordon group, from the names of two of the chief people interested. These companies comprise, among others, the Ashanti Goldfields Corporation, which we may call the pioneer enterprise, so far as a company of any magnitude is concerned, and which is actually working certain properties, the Ashanti Consols, to be concerned in the construction of the Kumassi railway, the Ashanti Sansu mine, and others. There are several other important groups interested in various parts of the country, but there are also several absolutely worthless groups, so that too much attention cannot well be paid to directors and other officials. Already many of the most notorious "guinea-pigs" and directors of worthless companies have found their way on to the boards of some of the minor concerns, and there can be no doubt that their new companies will fare as did those that went before. Moreover, it is important to note that very many of these West African companies have considerable liabilities on their shares, that the founders have in many cases options on large blocks of shares which they will certainly exercise in case of success, and that the question of title is a very important one; as in many cases,

it is feared, the native chiefs and others have not been above selling the same property two or three times over, sometimes when they themselves had no clear title to it. As the country progresses we shall doubtless have "booms" in the shares of various sections, and in most cases these sections will probably prove worthless. In any new gold industry, such as this, the best thing for the ordinary speculator to do is to follow the companies supported by sound financial groups, and leave the rest to those who have genuine information, and can pick and choose.

Queensland.—Among the goldfields which are established fields, but which do not perhaps attract the attention they deserve, are those of Queensland. There are several goldfields in the colony, but the most interesting and important is that of Charters Towers; for, in its Brilliant Reef, it has the most reliable of the important quartz reefs of the country, and a reef that is continuing to show well at great depth. Perhaps the best known in this country of the Queensland mines, and possibly among the best worth knowing, are the Brilliant St. George, the Brilliant Central, and the Day Dawn Block at Charters Towers, and the famous Mount Morgan mine in the district of that name.

New South Wales.—Gold-mining in this colony has not perhaps been very popular of late, and on the Cobar fields and elsewhere much of the mining has been done with the aid of local capital. There are undoubtedly great prospects for favourable de-

velopment, but the average investor will naturally hesitate about entrusting money to Colonial undertakings concerning which it is often difficult to procure information in this country.

Broken Hill Silver Mining.—The great centre of the silver mining industry in New South Wales possesses several properties that are of great interest to British investors. With the low prices ruling for silver nowadays there are not the advantages that formerly existed, and the Broken Hill ores are now very difficult to treat, owing to the large amount of zinc contained, which renders the ores refractory—that is, prevents the precious metals from being easily extracted. Once the problem of treating these rich ores is solved, it will mean much to the leading Broken Hill properties. In addition to the silver and zinc there is also a very large amount of lead in the ores, and that is, of course, of considerable value. Enormous amounts of "tailings" containing silver are awaiting profitable treatment, when once the method shall be discovered. The great mine is the Broken Hill Proprietary, and the shares may be regarded as an investment, and not a mere mining speculation, subject to the consideration or possibility of adverse fluctuations in the market-price of the products. Several other shares have good speculative attractions.

Victorian Deep Leads.—Interest seems likely to be aroused among mining investors in the "deep leads" of Victoria. These "deep leads" are alluvial deposits or gold-bearing gravel in the beds of ancient

rivers which now lie below the surface. The difficulty is that the flow of water is so great that very expensive pumping machinery is necessary, and a large amount of working capital is required. That these deep leads can be rich in places has been proved by the Government borings, but the industry seems to be highly speculative, and practical miners in the colony have been much amused by the very liberal notions of British company promoters as to what the public should pay to take a hand in the development.

New Zealand.—On the whole, New Zealand gold-mining has proved very disappointing for British investors. There is at least one great mine, the Waihi, and a few others of lesser worth. The trouble has been that, whereas New Zealand might have proved a satisfactory mining country for a few British companies, once attention was drawn to it, we had a "boom," and the public always pay for "booms" wherever they are. Like most other mining fields, local enterprise may succeed very well in a small way, but when once the British company promoter gets to work, may the Fates save the mere public! There are several more or less important mining fields, of which the best is the Upper Thames district, in the Hauraki peninsula of the North Island. Here are situated the Waihi, the Waitekauri, the Talisman, and a few other companies worth some attention. But New Zealand goldfields as a rule are poor and patchy, and decided care is needed in making selections.

British Columbia.—British Columbia and the Klondyke are other instances of what must invariably happen in a "boom." Arouse public interest to the slightest degree, and the swindling promoter is present, with the result that the public lose their money. Yet British Columbia has great promise as a gold-producer. In the old days the alluvial diggers did well, but they have given place to mining proper. Some other new concerns are hopeful, some hopeful but highly capitalised, and the majority are frankly bad. The most important district is that of Rossland, in West Kootenay, and there are situated what will probably prove to be nearly all the best of the British Columbian properties. It would seem that startling results are not to be expected from British Columbia, but moderately capitalised properties in good hands may be worth attention.

Copper Shares.—With the enormous increase in the normal demand for copper which is resulting from electrical and other developments, the copper-mining companies are ensured a great market. But the conditions at present prevailing are curious. The copper market is virtually ruled by a powerful American syndicate, and so far they have been successful in keeping up the price and in regulating the output, thanks to the great Rothschild influences being friendly. But all over the world there are large numbers of copper mines now being opened up, and in addition, in slack times of trade, it may not be so easy to control the supply. These give very

roughly the main things to consider in respect to copper shares. As to the mines, some are good, many are likely to do fairly well in good times, the majority are bad. The greatest copper mine is the Rio Tinto, under Rothschild influence, possessing enormous ore reserves. Of Americans the most important mine known on our Stock Markets is the Anaconda. Elsewhere there are sound propositions, such as the Cape Copper Company. An important group, so far as Stock Exchange interest is concerned, is the Mount Lyell section of Tasmania. The district as a whole is probably much overestimated, and mining investors have need to be very cautious, but the Mount Lyell itself, at reasonable prices, is a property not to be ignored. But, as has been already noted, the buyer of copper-mining shares has other things to consider besides the question of the amount of payable ore in the mine.

Cripple Creek.—The Cripple Creek district of the famous Colorado mining fields contains many valuable properties, but, as a rule, the Americans have kept the good things to themselves. Doubtless, in the near future, however, there will be several ventures offered under better auspices. The field is very rich, but is notoriously "patchy," and due allowance must be made in estimating values. It is absolutely necessary, too, to inquire closely into the credentials of the people who offer properties in the London market.

CHAPTER XXI

MISCELLANEOUS SECURITIES—I.

Banks, Insurance, Coal and Iron, Shipping, Gas and Water

NOTHING is more remarkable in joint-stock development than the tendency of late years for limited liability companies to supersede individual enterprise in trade. We can well understand it when gigantic undertakings, such as our railways, involving enormous capitalisation, are concerned. But the old political economists were firmly wedded to the notion that the personal equation was necessary in business, that personal initiation and supervision could effect far more than could be done by the hireling. To some extent their contentions are still uncontradicted by facts, for as a rule the joint-stock company only steps in to take over an established private business. But if initiation is still possibly the possession of individuals in their private capacity, and with their personal love of gain, undoubtedly it has been proved that the

established business can be fully maintained or improved upon by paid officials.

Bank Shares.—In considering the various branches of joint-stock enterprise, we will take first the group of industrial securities which is concerned with banking business. Bank shares as an investment have a decided fascination for certain classes of wealthy investors, and, usually speaking, they are unfitted for the investor of small means. This is due chiefly to the large liability remaining on most of the shares, the unpaid portion being security for depositors and creditors generally. Bank directors usually, of course, have the right to refuse to accept the name of a purchaser as a shareholder if his financial position seems such as to warrant fears as to his ability to meet "calls" in case of need. But investors with means are justified in keeping an eye on shares of the class. They differ in security of course, and often stand at prohibitive prices, but on the whole they do not offer any undue risks, and if bought under favourable conditions may be valuable holdings. One thing is certain: the old private banker is doomed, and joint-stock enterprise, with the enormous capital so readily available, must rule the banking world. Shares of British banks are best bought when trade is slack, profits consequently smaller, and prices low. The banks score heavily in good times, and distribute dividends which lead to considerable improvement in price. Further, attention should be directed to the class of business

done by a bank. Thus, a bank doing a mixed London and country business should produce more equable results than one doing a large London trading business and little or nothing in country, dealing heavily in commercial paper. The severity of competition, due to the great multiplication of branches, will undoubtedly make its influence felt in the near future, and it would seem unwise to buy bank shares at prices now ruling. In the days when the effects of trade depression are being felt, the position may be very different. Shares in such sound institutions as the National Provincial, the London and Westminster, and other banks, may then have special claims. But in spite of the sound manner in which all banking business is conducted, it is well not to forget the liability on many of the shares and the possibility of severe competition being felt. Outside the town area we have British banks in our colonies and abroad which may also be favourably regarded. Perhaps the most remarkable progress has been made by the Australian banks. Most of these were compelled to close their doors or reconstruct after the great collapse of credit of 1893—a natural result of over-speculation. Three leading banks escaped, these being the Bank of Australasia, the Bank of New South Wales, and and the Union Bank of Australia. The feature of the Australasian banking world has been the marvellous recuperative power of the banks which suspended payment. Unfortunately, the serious drought of the past few years has greatly hampered

development, but if the evidences of improvement should continue the leading Australian bank shares, offering as they do fairly good inducements to investors, may be favourably regarded. Such banks as the Hong-Kong and Shanghai, and the Chartered Bank of India, Australasia and China, are soundly managed institutions, which should benefit largely from extension of trade in the Far East. With exchange fluctuations and speculative business, to say nothing of political considerations, to hamper them, the shares should, of course, return a yield of about 6 per cent, or even more, to tempt the investor. Both institutions have their shares fully paid. The Imperial Bank of Persia is another British institution that is doing a careful trading business. It is specially liable to political worries, but if the country should be developed with European capital, such shares might prove desirable speculative investments. At all events, the yield is a very high one, and a high yield and decided risks run together.

The great British banking institutions in South Africa, such as the Standard Bank and the African Banking Corporation, have been affected adversely so far as their ordinary business is concerned by the war, and the consequent suspension of the mining industry. When the country has settled down, shares of the class should be standing at higher prices, although even now they are offering a good return to investors, but of course present speculation risks must not be ignored. Elsewhere

we have the Imperial Ottoman Bank, somewhat overrated so far as its shares are concerned, occupying a very important position and doing a large business in the Turkish Empire. The leading British banks in Egypt must necessarily benefit by any development of that country or the Soudan. Then we have the Colonial Bank doing a large business in the West Indies, and although its shares must be considered decidedly speculative, especially as there is a considerable liability on them, the position of the bank has improved immensely of late years. In South America we have various well-known and soundly-managed banks, the best proof of their careful business being the manner in which the Brazilian banks, for instance, weathered the recent financial crisis which wrought such havoc among the native institutions. The Bank of Tarapaca and Argentina is very largely concerned with the nitrate industry of Chili, as well as interested in Argentine trade. On the whole, the banking investment area at home and abroad is not to be ignored.

In respect to bank shares generally it should be noted that speculation in them is checked by definite legal provisions. An Act called "Leeman's Act" was passed which necessitated the delivery of such bank shares as are sold on the Stock Exchange. Thus the "bear," who sells what he has not got in order to buy back at a profit, is checked.

Insurance Shares.—The shares of the various insurance companies are very often dealt in at

auction, and the market for them on the Stock Exchange is usually limited. Dealing first with the life offices, we must note that many of these offices are "mutual,"—that is, there is no shareholding body to participate in the profits. A shareholding body is very useful in the early days of a life or other insurance office, for the uncalled liability on the shares furnishes good security. Where, however, an office is well established and possesses ample reserve funds, the utility of a shareholding body is not altogether evident. Where an office has shareholders the tendency has been of late years to reduce the proportion of the net profits taken by the proprietary. In Bourne's *Insurance Directory* we find the proportion taken by the shareholders set out, and it is very certain that if more than 10 per cent of the surplus goes to the shareholders the office will have to reform its methods. Intending investors in insurance shares should thus avoid such offices, as well as most of the minor or unsound institutions, whose only end must be bankruptcy or absorption. In the group of fire offices many have suffered of late years from being concerned in American business, where there has been much competition. On the other hand, most of those leading offices that have avoided that field have done very well. Before buying fire assurance shares reference should be made to the position of the office over a period of years to see how its margin between commission and expenses and claims on the one hand and revenue on the

other compares over a period with other fire offices. As a rule with our best offices business is very carefully conducted, and risks are spread over several companies by re-insurance. In addition to the great fire offices there is a little group of what are called the "non-tariff offices," which are working on independent lines in the risks they take, and do not conform to the agreed general principles of the larger offices. Their shares are much more speculative, and as a rule they are very weak in comparison with the old-established office. Past experience has shown that directly one of these offices becomes strong it usually prefers to join the ranks of the tariff offices. The accident and other forms of minor assurance also have their companies. They are often very enterprising, and work on a profitable basis, but these shares are more speculative than those of the sound life and even fire offices, which have reduced insurance business almost to a certainty. Marine assurance, too, is a very risky branch of work, and the shares of the group can only be regarded as speculations. Employers' Liability assurance is another branch which is highly speculative, and up to the present it has proved far from remunerative to the companies engaged in it. In fact, most of these speculative fields, in which the risks are not yet properly estimated, are too dangerous for the ordinary investor. As regards the best class of insurance shares, the most advantageous time to buy is when trade is showing a tendency to decline. And with

cheapening money, and better facilities for increasing business, we have two good influences on the shares, which should then begin to increase in market value.

Iron, Coal, and Steel Shares.—These shares are purely trade shares. If trade is booming they will do well, and numerous ventures will be offered to the public on the basis of big earnings over a period of two or three years. Men of repute in the trading world—M.P.'s and others—do not hesitate to take full advantage of the public in these times, although from their position in the trade they know full well, or should know, that they are asking too much, "capitalising on a boom basis," which is always bad. These shares fluctuate wildly, and their dividends are equally uncertain. To take an instance or two. Ebbw Vale shares stood at rubbish prices, and earned no dividend in the slack trade years of 1894-96. In 1900 they touched 16⅛ and earned 6 per cent. Pearson and Knowles paid no ordinary dividend in 1894, and paid 10 per cent in 1900. These are quite ordinary instances. It is always well to base a purchase price on average earning powers; it is absolutely necessary to do so in the case of these shares. In bad times the colliery trades suffer severely, but in good times the profits are very large. It is much the same with the iron and steel trades. In order to invest to the best advantage it is necessary to know something of local conditions as affecting the company. But there are sound companies of good

repute, having substantial reserve funds, which may be looked to after the period of depression, and the securities of which may be bought for the rally when trade improves. The investor should be very careful never to be deluded by talk of good trade continuing. When trade is really flourishing the dividends will be high. At such a time he should sell, whatever yield may be shown on paper. The *only* time to buy these shares, or even debentures, is after a period of depression when trade is mending.

Akin to this group are the great armament companies, which cannot, however, be judged altogether by the same rules, being dependent, of course, on various Government orders. Some of the big steel companies, too, are manufacturers of armour plate and other war requirements of governments. But although they are not to be judged exactly by the same rules, yet competition for orders will be more active when trade is slack, and the profit secured will not be so considerable as a rule.

Shipping Shares.—Very much the same may be said about the shipping shares. They depend entirely upon good trade. In such a time freights will be dear, big profits will be made. The improvement in trade will encourage the shipbuilding industry, the output of new vessels will be enormous, and presently when trade becomes slack and cargoes not so easy to obtain, it will be discovered that there are far too many ships, and the

depression will be very severe. These trade shares go always to very opposite extremes. The retail grocer may find his profits improve in good times, but only by a small proportion. The shipowner finds an enormous difference between good times and bad. Of course, the big passenger lines, like the Cunard, the Union, the P. & O., and others, belong to a rather different class, but even they obey these laws. We refer to the cargo-boats and the companies that own them. It is little short of scandalous that big shipowners should foist their ventures at fancy prices on the public when trade is flourishing, shipping profits are large, and owing to shipping being dear, assets bulk largely. The shipowners know full well that the conditions will not be maintained, and the public probably do not know the ways of the trade so well. Always avoid steamship companies and steamship shares when trade is flourishing, and if you hold them, sell them. When trade is slack and there is much competition to gain a livelihood, profits will be small and prices low. That is the time to buy, in order to sell again later when the conditions are more favourable.

Gas Shares.—The best time to buy shares in our leading British gas undertakings is when trade shows some disposition to decline and coal prices are in consequence falling. In one year the difference in the coal bill, caused by trade being good and prices of coal high, to our leading gas undertaking was £900,000. To a considerable

extent, of course, this was recovered by higher prices being charged, but the loss was heavy nevertheless. When trade is slack and coal prices low the gas companies pay more in dividends, and at the same time the scarcity of good investments causes a disposition for all respectable securities to advance, so that gas shares should then be reaching their highest prices. That is the proper time to sell and buy sound securities likely to benefit by trade revival when it comes. Gas-lighting has been and is threatened by a tendency in favour of electric-lighting, but owing to improvement in methods and extension of gas-cooking, there is not much chance of the gas companies being ruined right away! The shares are usually held by a good class of investor, are not very subject to scares, and return a higher rate than most securities that are of equally good standing.

Waterworks.—The water companies form huge monopolies, and are very powerful institutions. Whatever legislation there may be against them in the future, there is not much doubt that they are influential enough to secure good terms if they are bought out. The securities of the great London companies are among some of the best on the Stock Exchange. Possibly the fluctuations in this class of well-held security are not so wide as in many others, and for lock-up investments, purchases to hold over long periods, they cannot very well be surpassed. They pay rather more than can be got on some other of the soundest securi-

ties, and the best of the issues may be regarded as absolutely safe. The best time to buy waterworks' securities is during a period of good trade, when they are at the lowest figures, owing to money being dear and the fact that they follow the tendency of the gilt-edged securities.

CHAPTER XXII

MISCELLANEOUS SECURITIES—II.

THE joint-stock principle has been responsible for a great number of companies concerned with various enterprises which it would have been considered impossible some years ago to conduct on other principles than those of private control. But if we invent a toy, or make pills, or become expert in catering for the tastes of the public in the matter of a circus, or find ourselves successful as an actor-manager, we can always secure the support of the public if we issue a plausible prospectus. There is a great field open for the investor, and often he can do very well indeed in supporting industrial enterprise, but it is necessary to consider merits carefully. Perhaps it will be well to deal briefly with various other groups that attract attention.

Brewery Issues.—A very favourite group of investment securities have been the brewery issues. There are several things to note, however, in connection with any company, for there are many

pitfalls. The proportion of debentures to ordinary capital is sometimes very high. Then the money raised by these debenture issues has often been used to purchase tied houses and leases at very high prices, and many companies must show that they have lost heavily if their assets were revalued. Then there is the possibility of adverse legislation affecting the companies, and the companies, especially those not doing business chiefly with "tied houses," stand to be shot at by the Chancellor of the Exchequer. Very few of the breweries nowadays, it must be noted, do a free trade, and if legislation resulted in losses of licenses their assets would depreciate enormously. In fact, junior debenture issues have a greater risk than is generally recognised by some people. Before buying any brewery debentures nowadays it is absolutely necessary to note the proportion of the debentures to the whole capital, which should not be more than one-third, and to note further the floating indebtedness. If this is not disclosed clearly avoid the company.

In the latter part of the 'eighties there was a great "boom" in the flotation of American breweries on this side of the Atlantic, and the British public have paid heavily for the experience. They could not judge of local conditions, proper valuation of assets, charges for depreciation, and so forth, and found themselves saddled with obsolete breweries, and over-capitalised undertakings. Of late years we have had serious over-competition and heavy

war taxation. Probably, now that matters are righting themselves, the British investor may be induced to look to the brewery debenture and other prior issues as hopeful speculations with a high yield. But the lesson taught by the American brewery fiascoes, which maintained their big dividend showings for a year or two and then paid nothing, should teach the public how to regard foreign industrials, unless they have abundant information thereon and full testimony from British expert firms of valuers and accountants.

Combinations.—Undoubtedly one of the most interesting features in the company world during the period of trade depression will be the position of the great "combinations." Here is quite a modern development in trade, whereby attempts have been made to group the companies in a given industry under one control. Economy of administration and distribution, saving in the purchase of raw material, regulation of output, and consequent better profits, are some of the advantages claimed. But very high prices have had to be paid to gain the adherence of good companies, and the control is by no means effective in many cases. Over-capitalisation and inability to stop competition, in the opinion of the writer at least, whatever that opinion may be worth, threaten to make most results unsatisfactory in bad times. As a rule, the investor should avoid even the best of the "combines," unless he should know something of local conditions and the trade in which they are interested.

Many of the "combines" are grossly over-capitalised and their shares intrinsically worth very little. The most prominent of these undertakings are, perhaps, the English Sewing-Cotton Company, the New American Steel combination, and the Bradford Dyers.

Cycle Shares.—Here we have an industry which was greatly over-capitalised on the basis of a "boom" in the trade, when every little back street repairer became a maker, and every small maker's business was transformed into a company. Thanks to the enormous capitalisation of these companies serious over-production resulted in order to make a living, and that meant cutting of prices all round. One great thing in favour of this disorganised industry is that the high standard of British manufacture has been well maintained. But until there has been drastic reorganisation, amalgamation or cutting down of capital, so as to remove incentives to over-production, very careful discrimination is necessary, even if shares are only regarded as speculations. Fashions vary very much too in this trade, and a good designer may make all the difference in a company's business. Unless, therefore, the investor knows something more than the ordinary man about cycling or the cycling trade, these shares are best avoided.

Distillery Shares.—Another group of shares which has suffered much from gross over-capitalisation is that of the distillery companies of Scotland. Most of the companies were bought out, as is

usual with over-capitalised concerns, in the time of a small "boom," when the public were greedy for the class of security and ready to believe anything. Exceptional profits are not, however, usually maintained, and in order to save the situation and earn interest on the heavy capital the distilleries overproduced. Result—a fiasco, and numerous failures. It is the same tale in all such cases, whether the companies be cycle companies, distillery companies, tea-growing companies, or what not. And it all comes back to the same old rule: Do not buy when everybody else is buying. The trade is still overstocked, and inferior whisky is likely to be at a low price for a long time to come. There will probably have to be more failures or considerable curtailment of output before the industry is right again.

Drapery Companies.—The shares in the drapery and warehousemen's groups offer a good return as a whole, but they are necessarily speculative. A weak point about so many of them is inattention to the reserve fund, and when that is attended to, it is too often the case that the reserve fund is invested in the business. Several of the companies, such as Rylands and Son, T. Wallis and Son, Bradley, Greatorex and Co., and others, deserve notice. The trading risks have, however, to be seriously considered.

Electric Lighting Companies' Shares.—The shares of electric lighting companies attract considerable interest. The claims of each have to be

carefully considered on their merits, for it is necessary to note what are the possibilities of competition, especially on the part of municipal and local bodies. Where the companies are legally safeguarded against such competition there is good ground for considering claims for support. Is the company working in a compact and populous neighbourhood? is another question to ask—a question that applies equally to gas and water undertakings. Generally speaking, the results of working have often not, so far, been very favourable, but doubtless the results will improve as electric lighting comes more into vogue. Intending shareholders should carefully examine the position of the various companies, for many of them do not give any adequate idea of the work done, and charges for depreciation are frequently quite inadequate. High prices for coal and materials will, of course, tend against the net earnings of these companies. Some of these companies possess founders' shares, which are as usual a serious inconvenience, threatening to take a big share of profits; but most of the best of the companies, such as the Westminster, the St. James's, and others, have got rid of them some time ago.

Electric Traction.—Electric tramways have been growing in popularity of late years and have cut severely into the local traffic of many of our railway companies. In addition to the purely local undertakings, which have to be considered in the light of local requirements and possibilities,

there are one or two companies doing business on a large scale in the way of purchase and conversion of existing systems and extensions elsewhere. The enterprise is speculative of course. In addition there are several important electrical railway systems. The tendency seems to be to work these systems at low fares, and they must be regarded much as we regard our electric tramway systems. The local traffic conditions have to be considered carefully, competition possibilities and density of population being the two chief points to consider. In times of "booming" trade, when coal and materials are dear, these companies are likely to feel the pinch, and as share quotations will then be low, those are probably the best times to buy. Sooner or later, however, we shall see electric traction widely extended to embrace sections at least of our trunk railways.

Finance, Land, and Investment.—This is a very wide group of companies of very different merit. Taking first the Australian section, many of the companies are relics of the great boom in landed estates which came to such a disastrous end eight years ago. Later, the drought has caused the Australian Colonies to suffer severely, but now that things have shaken down, prices have been depressed, and in many cases reconstructions have taken place, the class is well worthy of attention from investors of a speculative turn of mind who will take risks in return for a better yield. Some of the companies are decidedly sound of their kind,

as, for instance, the South Australian, the Trust and Agency of Australasia, New Zealand Trust and Loan, Australian Agricultural, and the National Mortgage and Agency of New Zealand, the records of which have been satisfactory. Dalgety and Co., the great export merchants, have been steady dividend payers for years. It is necessary to remember that all the companies of this class are very dependent on the pastoral industries, the export of wool, and the condition of the wool market. The group does not perhaps receive the attention that it deserves from speculative investors, which is perhaps a result of the disasters of so many companies after the great land "boom." Much the same degree of caution is required in regard to other companies, and the investor should not look to this group unless he is in a position to find out reliable particulars in regard to the prospects of this or that company.

Petroleum Shares.—The shares of the various petroleum producers belong to a speculative group, and although several of the Baku companies known in the market here are in good hands, there has been a decided tendency to over-capitalise. Petroleum has a great future before it, and the world can do with all the new fields discovered, but, proportionately, petroleum "fountains" at Baku are not so frequently struck, and the supply of a well does not last for ever. Very high yield and big margins for depreciation and reserves are absolutely necessary in any company worth sup-

porting. You may estimate the life of a gold mine fairly accurately, but you can never tell when a petroleum well will run dry. The chief shares known on the British markets are those of the companies at Baku, on the Caspian, those of the Canadian fields, the Roumanian fields, and elsewhere. The best of the Russian companies at the present time are the Russian Petroleum and Liquid Fuel Company, and the Schibaieff and Baku Companies.

Rolling Stock Companies.—We have here a group of companies which are makers of railway waggons and carriages. They are usually dealt in on the provincial exchanges, chiefly at Birmingham and Sheffield. On the whole they give fairly good results, and a higher yield than can be obtained in most industrials. Ordinarily speaking, they should follow the trade investments, doing well when trade is active and there is a big demand for railway accommodation, and falling off somewhat when trade is slacker. The shares of the most steady-going companies, and especially the preference shares, are very well worth noticing, especially in times of slack trade when prices may be lowest. Some of the steadiest of these companies are the Birmingham Railway Car and Waggon Company, Bristol and South Wales Waggon Company, Gloucester Car and Waggon Company, and the Scottish, Union, Western, and Yorkshire Waggon Companies.

Tea Shares.—This is a very "limited" market.

Just at the present time tea shares are rather under a cloud. The truth is, that there has been much over-production, and it will be some time before matters right themselves. It is easier to over-produce than to expand markets. Another thing, the over-production has been in the cheaper kinds of teas. Efforts are being made to restrict the output, but it is early to say whether they will be successful. In addition to this present drawback, the question of the increase of the wages of coolies adversely affects the Assam companies. There are many rotten and over-capitalised enterprises, and great caution has to be exercised. Even then a bad season may upset calculations. As a rule, only the best Assam companies should be supported, and the minor Assam companies and the bulk of those of Ceylon are best avoided.

Telegraphs and Telephones.—To this group we add all the concerns primarily engaged in construction of materials for the various companies. The industry is precarious, depending much upon good demand, and we cannot judge of the earnings of normal times from those of times when, say, a Pacific and Trans-African communication are being established. As regards the telegraph companies, the possibility of competition has always to be considered, otherwise conditions are dependent on good or bad trade, for from trade the companies derive most advantage. Just at present the enthusiasts look to revolution of systems from Marconi and other forms of wireless telegraphy.

It may come in time, but the dangers are not yet. The field of telegraph and telephone shares is perhaps best avoided by the investor unless he has some means of knowing the conditions as affecting individual companies in which he may wish to be interested.

Theatre and Music Hall Shares.—These shares are very decidedly speculative. Too often they depend far too much on the genius of one man, and as that one man is mortal, there may be a muddle when he goes off the stage. A very weak point about many of these companies is that reserves and depreciation and renewal allowances are often not properly attended to, but that the prodigality which some say characterises the "profession" is shown in the matter of distribution of dividends. The shares may be attractive to those who have means of knowing something of the working of the companies, but the ordinary investor may do best by avoiding them. Especially should he be on his guard against supporting new ventures which are probably greatly over-capitalised on the strength of the name of one man.

Trust Companies.—These companies came into fashion at one time, and there was, as usual when a "good thing" is suggested, a "boom" in them. As usual also a good many "wild-cats" made their appearance, and the public have lost heavily. That is always a result of a "boom." If a trust company is properly conducted by competent men, it is often in a way to do profitable business, and

the results may be more satisfactory than if the investor invested for himself. As it is, however, the very greatest caution is necessary, and careful inquiry should be made before supporting any particular company devoting itself to investment and financial business. It is often difficult to gain a true idea of the assets of a trust company, and the law allows rather curious anomalies. Thus, if an investment of £10,000 appreciates to £12,000 in value, the odd £2000 may be distributed in dividends. If it dropped to £8000, there is no need apparently to provide £2000 for depreciation. And the assets might be shown at "par" on the balance sheet.

Newspaper Shares.—There has sprung up of late years a decided demand for newspaper shares as investments. They offer as a rule a higher yield than most industrials; but as a rule, too, the capital of the companies is out of all proportion to the assets, if we exclude goodwill. The latter is usually estimated very highly, but it is not well to ignore the fact that it is often due, in minor enterprises, to the genius of a few men. Competition is very rife too. In regard to the financial journals the position will depend also upon activity on the Stock markets, and consequently in promoting circles. For a large portion of their revenue is derived from company advertisement, and these are only forthcoming in large numbers when the public are in an investing mood.

Other miscellaneous shares there are in plenty,

but in many cases knowledge of local conditions is advisable before investing. Hotel shares, for instance, are often a sound investment, but often very dependent on the skill of one man, and large sums should be set aside to provide for depreciation and other funds. Tramway and omnibus shares must be judged strictly by consideration of local circumstances. Canal shares are usually shares of the steady-going order, and dock shares are largely dependent on trade conditions. So even are Suez Canal shares, which are nevertheless among the soundest securities going. Certain classes of shares must be viewed with great caution. Such are the shares of patent medicine, showman, and novelty companies, often depending entirely on the mere public fancy of the moment. Usually goodwill and charges for patents embrace far too large a proportion of the assets, and investors should never support such shares unless a very high interest yield indeed is shown, other considerations being satisfactory.

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